

Stock Markets Drop Across Europe and The Americas

Fire Sale of Asian Assets
Undermines Economies
In Russia and Venezuela

By Mitchell Martin
International Herald Tribune

NEW YORK — Stock prices crumbled in Europe and the Americas on Friday as deflationary pressures from Asia infected other emerging markets, notably Russia and Venezuela.

The stock-market declines were exacerbated by the U.S. missile attacks Thursday on suspected terrorist facilities in Afghanistan and Sudan and by President Bill Clinton's political problems.

The U.S. stock market was among the least affected, with the Dow Jones industrial average closing down just 77.76 points at 8,533.65, or 0.90 percent. Bond prices rose in America and Western Europe as investors opted for the relative safety of the fixed-income markets. Asian stock markets, which have been depressed for months, generally showed only minor losses.

The sharpest falls were recorded in South American stock markets, where key indexes fell as much as 8.4 percent. Trading was automatically halted for half an hour in Sao Paulo after the Bovespa index fell by more than 10 percent. The benchmark index recovered to finish down 2.85 percent.

In Venezuela, the benchmark stock index lost 8.4 percent, and in Argentina stocks lost 7.8 percent.

Key equity indexes in Europe fell 3 percent to 4 percent, except in Germany, where the benchmark DAX closed 5.92 percent lower, reflecting German banks' exposure to Russia. Moscow precipitated the market turmoil Monday when it declared a moratorium on debt owed by banks and other borrowers and said it would allow the ruble to fall by as much as a third.

"What we are seeing," said Desmond Lachman, emerging-markets economist at Salomon

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Russia's Duma Demands Yeltsin Surrender Power

By Michael Wines
New York Times Service

MOSCOW — The man who climbed atop an armored vehicle and led Russia out of communism in August 1991 has scarcely been seen in public since his country's financial markets and its currency fell off a cliff last week.

The big question — for him and for the reforms he champions — is whether Russians care any longer.

President Boris Nikolayevich Yeltsin, already deeply unpopular, now seems to have sunk even lower in political and public esteem than his country's ruble.

The Duma, Russia's lower house of Parliament, voted, 245-32, on Friday to ask him to resign. Newspapers are savaging him with headlines like "The Devaluation of the President."

Political analysts say the week's events all but abort prospects that Mr. Yeltsin, now 67, might seek a third term in 2000.

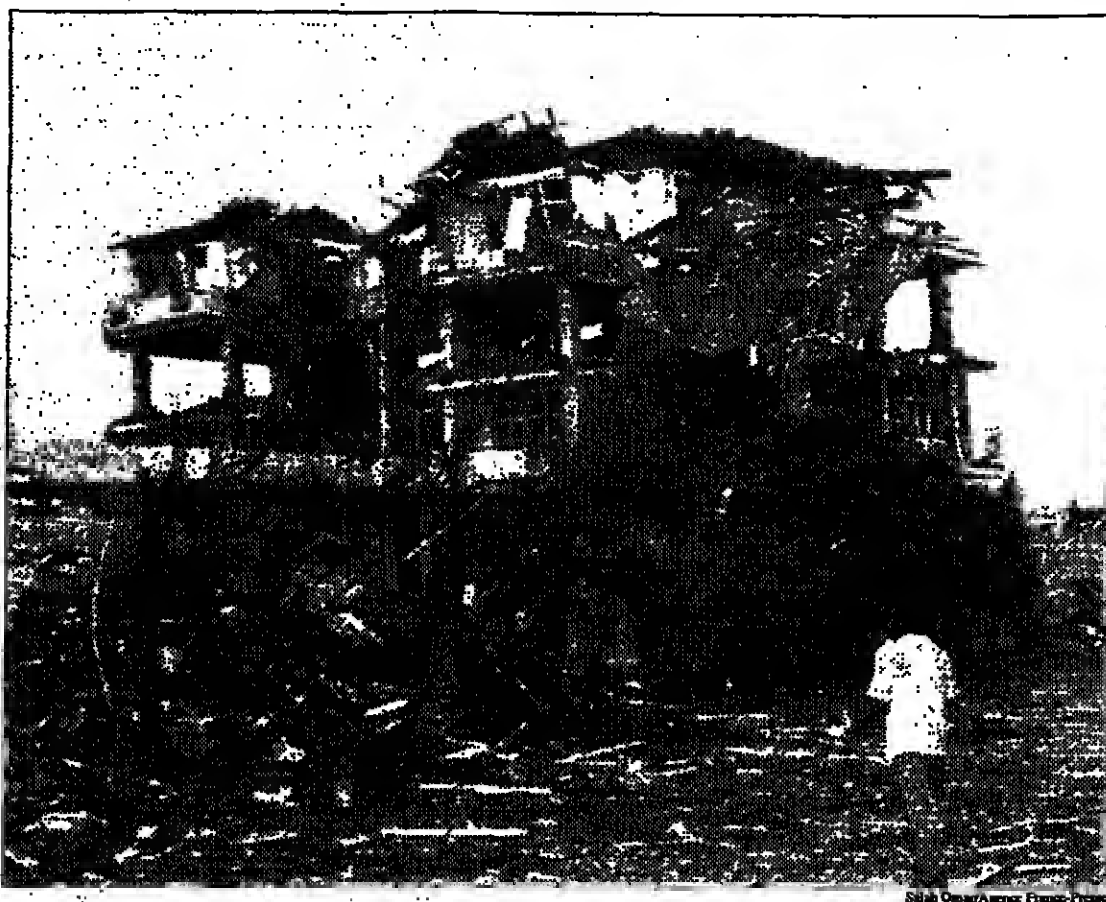
His top aides, a best-and-brightest crew widely admired abroad, are now so tarred by failure at home that their own political prospects are slight.

In fact, there is nobody on Russia's political horizon who embraces the president's Westernized brand of economic policy and — just as important — has a chance of winning a presidential election.

"There is nobody to continue the reforms," said Otto Lathis, the deputy editor of the news-

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'THIS IS GOING TO BE A LONG-TERM BATTLE'



Ruins of El-Shifa pharmaceutical plant in Khartoum, Sudan, on Friday after U.S. cruise missiles came in during the night. The U.S. contends lethal research was under way at the site.

Struggle Gains New Dimension

A Look at How the Fight Against Terrorism Will Change

By Joseph Fichett
International Herald Tribune

PARIS — The U.S. war against terrorism assumed a new dimension with the cruise missile strikes at targets in Afghanistan and Sudan. As with any adjustment to policy, questions abound. This is an effort to answer the most crucial ones.

What is different about these air raids and previous ones against terrorists?

The action signals a shift to more aggressive U.S. counter-terrorist tactics in response to a new phenomenon — "the privatization" of terrorism — in which individuals such as Osama bin Laden have replaced state-sponsored terrorism. These new terrorist groups are less vulnerable than governments to traditional international pressures.

Striking directly at the terrorists' camps is the first step in a new counter-terrorist strategy designed to cope with this new fluidity in terrorists' moves.

What does it mean when President Bill Clinton promised it would be "a long war?"

This approach will probably oblige the United States to use force again and again. A need for military

action will shift budget priorities — for example, to intelligence. In turn, the United States actions will step up political pressures on other governments, friend and foe, to take account of the determination by the United States to protect itself against terrorism.

Was the United States violating international laws by these missile attacks?

Not if Washington acted in self-defense. Intervening unilaterally in a sovereign country is normally deemed aggression, but the UN Charter authorizes nations to strike pre-emptively against an imminent threat — precisely the language that U.S. officials have used in talking about Mr. bin Laden's plans for fresh terrorist strikes.

Significantly, U.S. officials justified the strikes not as retaliation for the bombings of the embassies — themselves an act of war — but instead as moves to defend Americans against a constant threat by terrorists.

How important is Osama bin Laden?

He is considered particularly formidable because of his credentials among Islamists committed to armed struggle and his extensive exposure to the West —

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Osama bin Laden

Actions attributed to Osama bin Laden or his followers:

- Provided safe house for the World Trade Center bomber, Ramzi Ahmed Yousef.
- Attacked U.S. soldiers in Yemen and Somalia during peacekeeping operations in 1993.
- Killed seven people in 1995 bombing of U.S. training facility in Riyadh, Saudi Arabia.
- Aided 1995 assassination attempt on President Hosni Mubarak of Egypt.
- Bombed Khobar Towers facility in Dhahran, Saudi Arabia, in 1996 killing 19 U.S. servicemen.
- Participated in Aug. 7 bombings of U.S. embassies in Nairobi and Dar es Salaam.

Source: U.S. Defense Department, Washington Post.

Born: Around 1955 in Jidda, Saudi Arabia.

Family background: Youngest son of the late Mohammed bin Laden, a wealthy Saudi who founded the Bin Laden group, a construction company involved in Saudi government contracts. Osama bin Laden inherited about \$300 million from his father.

1979: Leaves Saudi Arabia to fight Soviets in Afghanistan.

Mid-1980s: Co-founds group to help funnel fighters and funds to the Afghan resistance and establishes recruitment centers around the world.

1988: Forms organization to support Islamic opposition movements.

1989: After Soviet withdrawal from Afghanistan, bin Laden returns to Jidda to work in family's business.

1991: Saudi Arabia expels bin Laden for his anti-government activities. He relocates to Sudan.

1996: Sudan expels bin Laden largely in response to U.S. and UN pressure. Bin Laden takes refuge in Afghanistan, where he continues his support of Islamic extremist activities.

The Washington Post

U.S. on Alert, Preparing for 'War' on Terror

By Brian Knowlton
International Herald Tribune

WASHINGTON — The United States warned Friday that its missile strikes against sites in Afghanistan and Sudan signaled the start of a "long-term battle" against terrorists.

Officials ordered heightened security at installations abroad and at bases and government buildings in the United States.

With a sense of threat greater than at any time since the Gulf War, security measures were heightened immediately at many major airports in the United States and in other countries.

The State Department has urged Americans abroad "to exercise much greater caution than usual."

A terrorist response to the cruise missile attacks was almost certain, Secretary of State Madeleine Albright said.

"This is not going to be something that is dealt with overnight," Mrs. Albright said on NBC. "This is going to be a long-term battle against terrorists who have declared war on the United States."

Other key officials joined Mrs. Albright in warning that the battle with terrorists was far from over.

"We are certainly going to do everything we can to defend ourselves," said Samuel Berger, the national security adviser, "but we're also going to be on offense."

He added, "We have to be ready to take a wide range of actions."

Attacks Thursday inflicted "medium to heavy damage" on terrorist bases in Afghanistan and "functionally destroyed" a suspected chemical weapons factory in Sudan, Mr. Berger said Friday. He and Mrs. Albright called the strikes a success.

U.S. warships in the Red and Arabian seas fired 75 to 80 Tomahawk cruise missiles. President Bill Clinton interrupted his Martha's Vineyard vacation to make a dramatic announcement of the U.S. strikes.

Mr. Clinton said the United States had "convincing" evidence that terrorists loyal to Osama bin Laden, a wealthy Saudi exile, were responsible for the Aug. 7 bombings of U.S. embassies in Kenya and Tanzania, which killed more than 250 people. He said they were planning new attacks against American targets.

Officials in Afghanistan said that 21 people died there and 30 were injured in attacks on training camps and weapons caches.

Sudanese officials said that at least 10 workers were injured, some critically, in attacks on a factory that locals insisted produced only pharmaceuticals, including anti-malaria drugs.

Damage to that factory, in an industrial district north of Khartoum, was clearly extensive. A CNN correspondent reported seeing thousands of small pill bottles amid collapsed walls, twisted girders and smoldering ruins.

Mr. Berger said it was possible that weapons-related chemicals were not all that the plant produced.

He added pointedly, however, "There is no question in my mind that the Sudanese factory was producing chemicals that are used, can be used in VX gas. This was a plant that was producing chemical-warfare related

The World Reacts

• Many Muslims voice fury over the U.S. strikes and predicted more violence. Page 5.

• The European allies offer their support. Page 5.

• Specialists debate the effectiveness of striking back after terrorist attacks. Page 4.

• A certain film, 'Wag the Dog,' comes to mind as life imitates art imitating life. Page 3.

Private Woes And Public Responsibility For President

By John F. Harris
Washington Post Service

WASHINGTON — Ten days ago, President Bill Clinton flew overnight from a political trip in California for a White House meeting at which his national security team laid out planning for a military attack against a terrorist network linked to Osama bin Laden.

The next day, Mr. Clinton sent word to some of his advisers that he had decided, after months of stalling, that he had no choice but to address the nation about his extramarital relationship with Monica Lewinsky.

The day after that, last Friday, he met again with the security team and gave approval for the retaliatory attacks in Afghanistan and Sudan. Then he spent the weekend closeted in the White House, preparing to meet with prosecutors for queries into his sex life.

On Monday, before his meeting with prosecutors about Ms. Lewinsky and his televised speech that night, there was a series of discussions with advisers about preparations for the military strike.

On Tuesday, the president flew to Martha's Vineyard, Massachusetts, for what aides said would be two weeks of healing time with his family.

All the while, he and a small number of national security officials knew the truth: Mr. Clinton planned to return soon to Washington so he could speak again in the nation, this time from the Oval Office about the U.S. military action he had ordered to avenge the Aug. 7 embassy bombings in Kenya and Tanzania.

And so it went for nearly two weeks, several close presidential advisers said Wednesday, as Mr. Clinton's schedule and thoughts hurtled back and forth between two crises of a very different nature. Even as Mr. Clinton was preparing to acknowledge a difficult truth about one secret in his private life, he was harboring another secret dealing with one of the most difficult respon-

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Newstand Prices

Bahrain	1,000 BO	Middle	55 c
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Gibraltar	€ 0.85	Spain	100 Ptas
Great Britain	€ 0.90	Saudi Arabia	€ 1.00
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Egypt	1,250 JD	U.A.E.	10.00 Dh
Jordan	1,250 JD	U.S. Mail (Ext.)	\$ 1.20
Kenya	1,250 JD	U.S. Mail (Ext.)	\$ 1.20
Yugoslavia	700 Fms	Zimbabwe	Zm\$40.00



Mandela Sets Up Talks on Congo Crisis

Zimbabwe Troops Arrive to Aid Kabila as Risk of a Regional War Grows

By Nori Onishi
New York Times Service

KINSHASA, Congo — As more countries became entangled Friday in the 19-day civil war in Congo, threatening to turn the central African nation into a battlefield for ethnic, political and diplomatic rivalries on the continent, President Nelson Mandela of South Africa announced plans to hold weekend talks with the leaders and sponsors of the war.

In Kinshasa, aides to President Laurent Kabila said they would participate in the negotiations. And the South African government announced that heads of the main countries involved in the conflict had also agreed to meet in Pretoria on Saturday.

The announcement came after Zi-

mbabwe began openly supplying Mr. Kabila's overwhelmed forces with arms and troops in the region southwest of here, possibly altering a situation in which the fall of Kinshasa seemed all but inevitable.

Meanwhile, Rwanda and Uganda, which have steadfastly denied buttressing the rebellion against Mr. Kabila, used unusually harsh words to denounce Zimbabwe.

The South African government, which has been pressing for a peaceful resolution to the conflict and has opposed military intervention, said that Mr. Mandela would meet with Mr. Kabila and the presidents of Zimbabwe, Uganda and Rwanda.

The next day, representatives of the 14 nations of the Southern African Development Community are scheduled to

meet to try to agree on a policy toward Congo.

Two of the organization's biggest members, South Africa and Zimbabwe, have locked horns on the issue of military involvement.

Uganda and Rwanda do not belong to the organization, whose chairman is Mr. Mandela.

"It could be a turning point," said a European ambassador in this city. "I think on Saturday, they might try to get the major players together to iron out their differences before the Sunday meeting."

But the conflict has already damaged long-term relations among countries in this region, he said, adding: "Relations between South Africa and Zimbabwe

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AGENDA

Ex-Klan Chieftain Convicted of Murder

HATTIESBURG, Mississippi (AP) — The former Ku Klux Klan chieftain Samuel Bowers was convicted Friday of ordering the 1966 firebombing death of a civil rights activist, Vernon Dahmer.

The Forrest County Circuit Court jury deliberated just over two hours before convicting Mr. Bowers, 73, of arson and murder. The conviction, which followed four days of testimony, came after four trials in the 1960s ended with deadlocked juries.

Mr. Bowers showed no emotion as the verdict was read.

"Take him away," Circuit Judge Richard McKenzie said after the jury foreman announced the verdict. The sentence carried an automatic life term. There was no immediate indication as to whether Mr. Bowers would appeal.

Lewinsky Returns

Monica Lewinsky offered more details in her second grand jury appearance as prosecutors sought distinctions between her testimony and that of President Clinton. Page 3.

Lewinsky Tells Grand Jury More About Presents and Sex With Clinton

By Don Van Natta Jr.
and Richard L. Berke
New York Times Service

WASHINGTON — In her second and probably final appearance before a grand jury here, Monica Lewinsky offered more specifics about her sexual relationship with President Bill Clinton as prosecutors sought to draw distinctions between her testimony and that of the president, lawyers close to the case said.

During the three-and-one-half-hour session Thursday, prosecutors bore in on the events that led Ms. Lewinsky to return gifts from the president that had been subpoenaed in the Paula Jones sexual misconduct lawsuit last December, the lawyers said.

The events surrounding the gifts are potentially the most serious for the president because prosecutors are seeking to determine whether he instructed Ms. Lewinsky to turn the gifts over to his secretary, Betty Currie, rather than give them to lawyers for Mrs. Jones.

Ms. Lewinsky testified Thursday that she told Mr. Clinton last December that the Jones subpoena demanded gifts he had given her, a lawyer familiar with her account said.

The president told her that she could not turn over the gifts if they were not in her possession, Ms. Lewinsky has told prosecutors.

The day after her discussion with the president, Ms. Lewinsky received a phone call from Ms. Currie, who told her, "I hear you have something for me," Ms. Lewinsky told the grand jury Thursday, lawyers familiar with her account said. Ms. Lewinsky said that she just assumed that Ms. Currie was referring to the gifts, the lawyers said.

Later that day, Ms. Currie went to Ms. Lewinsky's apartment to retrieve the gifts, the lawyers said in their account of her testimony.

But this account differs in some respects from Mr. Clinton's testimony Monday.

Mr. Clinton told the prosecutors that he told Ms. Lewinsky in December

1997 that she had no choice but to turn over gifts he had given her to Mrs. Jones's lawyers, lawyers familiar with her testimony said.

When asked about the role of Ms. Currie, he said he could not recall telling her to call Ms. Lewinsky about the gifts, the lawyers said.

Prosecutors are also investigating whether Mr. Clinton kept some of the gifts given to him by Ms. Lewinsky that had been subpoenaed by lawyers in the Jones case, lawyers close to the case said.

Ms. Lewinsky offered more specifics of her sexual encounters with the president than she gave in her testimony two weeks ago, her friends and associates said.

The specifics of their physical contacts are also central to the prosecutors' case as they try to determine whether Mr. Clinton committed perjury in a deposition in the Jones case.

Ms. Lewinsky, these people said, told the panel that he intimately caressed her breasts and touched her genitals during

several encounters inside the White House.

Her account was far more detailed than the president's testimony.

Before he began Monday, Mr. Clinton admitted to the grand jury in a statement supplied by his lawyers that he had "inappropriate intimate physical contact" with Ms. Lewinsky in the White House. But the president repeatedly declined to discuss specific sexual acts.

As prosecutors continue to try to determine whether Mr. Clinton lied in his January deposition in the Jones case, lawyers on both sides continue to wrangle over what constitutes sexual conduct.

In his grand jury testimony, Mr. Clinton argued that the type of relationship he had with Ms. Lewinsky did not meet the definition of sex used by Mrs. Jones's lawyers, lawyers close to the case said. Three lawyers said he was implying that he had oral sex with Ms. Lewinsky without testifying to that directly.

But prosecutors are expected to argue that the acts described by Ms. Lewinsky on Thursday fall within the definition of "sexual relations" used by Mrs. Jones's lawyers.

Beyond the testimony, prosecutors have obtained a sample of Mr. Clinton's genetic material to determine whether it matches a semen stain on a dress Ms. Lewinsky turned over to prosecutors, lawyers close to the investigation said.

The FBI crime laboratory has determined that the stain on the blue dress was semen, two officials briefed on the results said Thursday.

If the DNA in that stain matches the DNA sample from the president, prosecutors would have forensic proof that the president's relationship with Ms. Lewinsky was sexual.

An adviser to the president said that the DNA sample was requested from Mr. Clinton last Friday and provided over the weekend.

Lawyers familiar with Mr. Clinton's testimony said prosecutors asked him questions about the dress.

Prosecutors apparently considered it important to obtain forensic proof of the relationship as well, perhaps anticipating that Mr. Clinton would likely maintain that his contacts with Ms. Lewinsky did not fit the definition in the Jones case.

During Mr. Clinton's testimony, prosecutors also asked the president if he deliberately wore a necktie, given to him by Ms. Lewinsky, during a Rose Garden appearance Aug. 6, the day Ms. Lewinsky first testified before the grand jury.

Mr. Clinton said he did not believe the gold and royal blue tie had been a gift from her. He was then informed that she had testified she gave it to him, and the prosecutors asked if he had worn it that day as some kind of a "signal" to her, perhaps to influence her testimony.

Mr. Clinton said again he could not remember if the tie came from her. But he insisted that he had no intention of sending Ms. Lewinsky any kind of message that day.

For Whatever Reason, People Think of 'Wag the Dog'

By Frank Bruni
New York Times Service

NEW YORK — When the news that the United States had bombed terrorist targets swept through her midtown Manhattan office Thursday, Valerie David felt a predictable knot of emotions: sorrow for the loss of lives, concern about the precision of the attacks, fear about where this would all lead.

But her reaction was threaded with what she described as a surreal, almost comical sense of déjà vu.

"Wag the Dog," said Ms. David, an Avon Products copy editor, stifling a chuckle. "Everybody at the office was talking about it, how ironic it was that life was imitating art."

In the movie, the president's aides contrive a war to distract attention from sexual transgressions. Was the administration doing something like that?

Cynical in the extreme, that was a question that some residents of the New York region could not avoid asking.

It seemed to reflect not only the bizarre parallels between fiction and fact but also a profound distrust some Americans have begun to harbor.

These Americans may well represent a minority. A random sampling of opinions around the New York region yielded at least as many people who said the president's use of force in Afghanistan and Sudan seemed justified, that the U.S. could never be too aggressive in its efforts to stamp out and deter terrorists.

Even some of those people who professed antipathy toward President Bill Clinton did not think he would stoop so low as to use military action to divert attention from Monica Lewinsky, with whom he admitted a relationship.

"I don't think he's that much of a dimwit," said Lina Fetter, an accountant

from Morris Plains, New Jersey.

But there were others for whom the timing of the bombings, coming so fast on the heels of the president's televised address on Monday night, seemed a little too tidy, a little too cinematic.

"The first thing that popped into my mind was how convenient this was," said Brian Cooper, an investment banking analyst who works in midtown Manhattan. "My brother called me to tell me what had happened, and I said, 'Doesn't this remind you of 'Wag the Dog?'"

The fact that Mr. Cooper could not be certain whether his suspicions of the president's motives had been planted by the movie, or were separate from it, was only one of the odd ways in which Hollywood and Washington commingled Thursday.

As it happened, the pool of news reporters assigned to a tent outside the house where the president was staying in

Martha's Vineyard had just settled down to watch "Wag the Dog" on pay-per-view television when word came that the president would be interrupting his vacation for an important announcement.

That announcement, of course, was about the attacks.

Kenneth Starr, the independent counsel investigating the Lewinsky affair, fielded a question about "Wag the Dog" from reporters on the steps of the courthouse in Little Rock, Arkansas.

"Yes, I have seen it," Mr. Starr said with a chuckle. "Other than that, I'm not going to comment."

Uncharitable reactions could be found on the Internet, which quickly sprouted jokes that cast Mr. Clinton's actions as a cunning ploy. In one, a pollster tells the president, "Your speech bombed. I'm being as candid as I can." The president then informs an aide, "It sounds like he said I should bomb Afghanistan."



David Kaczynski, whose suspicions led the FBI to his brother.

Brother of Unabomber Gets \$1 Million Reward

Cash Will Go to Victims, His Lawyer Says

By James Brooke
New York Times Service

NEW YORK — David Kaczynski and his wife have been given a \$1 million reward from the Justice Department for turning in Mr. Kaczynski's older brother, Theodore, as the Unabomber.

Mr. Kaczynski, an upstate New York social worker, has said that he will give the proceeds of the reward to families of those killed and injured in his brother's 16 bombings over 17 years.

Mr. Kaczynski told the FBI in 1995 that he suspected that his brother was responsible for the attacks after he read a 35,000-word tract from the bomber that was published in The Washington Post. The manifesto, which was published with joint financing from the New York Times, echoed many of the anti-technology sentiments he had heard his brother express.

Ever since his brother's arrest in April 1996, Mr. Kaczynski has said that he did not go to the FBI out of interest in the reward, which was offered in October 1993, but out of concern that more people could be hurt.

Theodore Kaczynski killed three people and injured 29 others, including university professors, corporate executives, a secretary, a security guard and 12 passengers on an airplane.

"My mother and I respect their loss and wish to do whatever we can to ease their grief," David Kaczynski said last autumn, referring to his mother, Wanda, who lives near the couple. "I know that mere money cannot

compensate for the loss of a loved one or rebuild a shattered life."

Mr. Kaczynski did not return calls made Thursday to Equinox, the shelter for troubled teenagers where he works. But Anthony Biscoglie, his lawyer, said that he expected Mr. Kaczynski to stick to his plan to distribute the reward money, after taxes, among the victims and their families.

Mr. Biscoglie, who served as the initial liaison between David Kaczynski and the FBI, received the \$1 million check at his Washington law office Wednesday. He said he had forwarded it to Mr. Kaczynski and his wife.

"The mechanics have not been worked out" for distributing the money, the lawyer said. He added that federal and state taxes could gobble up almost half of the reward.

Mr. Kaczynski has said that he was emotionally torn by turning in his brother. He battled before the trial this year to save his brother's life.

Prosecutors wanted a death sentence for Theodore Kaczynski, while he refused to accept a defense based on mental incapacity that could have brought a life sentence. As the trial was about to begin, prosecutors agreed in January to recognize Theodore Kaczynski's mental illness, to allow him to plead guilty to 13 attacks, including the three fatal bombings, and not seek the death penalty. In May, he received four life sentences.

Throughout the hearings, Theodore Kaczynski never acknowledged his brother's presence.

"I hope that Ted will someday forgive me," David Kaczynski said.

Aide's Notes Quote Gore On Fund-Raising Rules

WASHINGTON — The notes of a senior aide say that at a November 1995 White House meeting where the distinction between hard and soft money was apparently discussed, Vice President Al Gore told the others present to "count me in" on making fund-raising telephone calls that are the subject of a Justice Department review on whether to seek the appointment of an independent prosecutor.

Mr. Gore's comment was recorded in handwritten notes by his deputy chief of staff, David Strauss, that appear on several pages of a White House memorandum that discussed the Democrats' ambitious fund-raising strategy for the 1996 Clinton re-election campaign. The memorandum was turned over to the Justice Department by the White House about a month ago and has prompted prosecutors to begin the process of deciding whether to seek an outside counsel to investigate campaign finance abuses.

The notes suggest that Mr. Gore may not have been candid in his public statements on the subject of the phone calls. He has said that he did not realize that some of the large contributions he solicited in the fund-raising calls for general campaign purposes by the Democratic Party, such as registration drives, would be diverted to "hard money" accounts that directly financed such Clinton-Gore re-election devices as television ads.

But Mr. Strauss' notes indicate that Mr. Gore may have known that there was a distinction between "hard money" and "soft money" contributions because the subject appears to have been discussed at the Nov. 21, 1995, meeting attended by President Bill Clinton, Mr. Gore and senior campaign officials.

Mr. Strauss wrote "65 percent soft, 35 percent hard," an apparent reference to the division of contributions between hard and soft money accounts. In his small, neat hand, he jotted a

shorthand definition of soft money as "corporate or anything over \$20K from an individual."

The seemingly narrow question of whether Mr. Gore knew the distinction between hard and soft money is significant because Attorney General Janet Reno has said that telephone solicitations for the re-election effort, or hard money, by the president or vice president were subject to federal campaign finance laws and could be illegal.

Ms. Reno refused in December to seek an outside prosecutor to investigate Mr. Gore's phone calls, in effect clearing him of wrongdoing, because she had found no evidence that he had known that money from any of his calls had been diverted to hard money accounts. But early this month the notes forced her to reconsider her decision, law enforcement officials said.

The officials said that Mr. Gore was recently questioned for about a half hour by Justice Department investigators. But his aides said he would ultimately be exonerated. (NYT)

Where Is Socks the Cat?

WASHINGTON — There was Buddy in newspapers Thursday, trotting ahead of his master on a Martha's Vineyard country road. There the chocolate Labrador was earlier this month, greeting the president on his return from a fund-raising trip to California. And on Wednesday, Buddy was on the front page of newspapers around the world, alongside his humans, Bill, Hill and Chels, as they left town.

But what about Socks?

Where is that black-and-white cat who played First Prop when the Clintons came here in 1993? Has he been banished? Or... worse? We decided to ask the White House.

"He is handled by the first lady's press office," the president's media shop said.

A call to what Mrs. Clinton's staffers call "Hillaryland" was answered by a spokeswoman, Julie Mason, who said, "Socks is still here, alive and well. Maybe he doesn't like the heat of the summer." (WP)

Israel Is Said to Give Written Pullout Offer to Palestinians

Compiled by Our Staff From Dispatches

JERUSALEM — Inching toward compromise, Israel for the first time confirmed to the Palestinians in writing that it would withdraw from 13 percent of the West Bank — with conditions, an Israeli newspaper reported Friday.

But a Palestinian negotiator denied that any progress had been made and said that there had been no negotiations between the two sides since Aug. 4.

The newspaper report came as Israeli troops sealed off the West Bank city of Hebron while searching for an assailant, suspected to be a

Palestinian, who stabbed a Jewish settler to death and set fire to his home.

Washington has sought since January to win acceptance for a proposal that Israel withdraw from 13 percent of the West Bank. The Palestinians reluctantly accepted the plan. Israel has said a pullback on that scale would endanger its security.

In recent weeks, Israel has floated a compromise under which it would withdraw from 13 percent of the West Bank, but 3 percent of that area would be declared a nature reserve and the Palestinians would have virtu-

ally no say over land use.

The newspaper Yedioth Ahronoth reported Friday that Israel had submitted the plan to the Palestinians in writing, and that the Palestinian leader, Yasser Arafat, had become intensively involved in the negotiations.

The daily said the compromise had been accepted by the Palestinians, but a Palestinian negotiator, Hassan Asfour, denied that report.

"The redeployments must be in accordance with the agreements and not creating new categories of land," the negotiator said Friday.

The Palestinians have ac-

cused the government of Prime Minister Benjamin Netanyahu of leaking reports that agreement was near to deflect U.S. pressure.

In Hebron, the army said it was barring Palestinians from entering and leaving the volatile city following the killing overnight of Rabbi Shlomo Raanan, 63, a grandson of Rabbi Avraham Yitzhak Hacohen Kook, whose writings inspired the settler movement.

Mr. Netanyahu cut short a holiday in northern Israel, announcing through a spokesman that he would return to Jerusalem in the afternoon for consultations over tensions in

Hebron and in Lebanon, where Hezbollah guerrillas killed two Israelis.

The spokesman, Aviv Bushinsky, said that Mr. Arafat had promised Yitzhak Molho, a Netanyahu adviser, that he would order Palestinian police to take all steps to help catch the killer.

Early Friday, about 20 Palestinians hurled rocks and bottles at Israeli soldiers in the streets of Hebron. Palestinian police helped break up the disturbance.

About 400 Jews live in the center of Hebron, which is home to 100,000 Palestinians. The city was divided in-

to Israeli and Palestinian-held sectors under an interim peace agreement last year.

The Israeli Army imposed a curfew in the 20 percent of Hebron under Israeli control, confining the 20,000 Palestinians who live there to their homes. (AP, Reuters)

Swiss Central Bank Boycotts Holocaust Settlement

The Associated Press

BERN — The Swiss central bank refused Friday to contribute to a \$1.25 billion settlement by the country's two biggest commercial banks with Holocaust survivors.

The Swiss National Bank announced the decision after an extraordinary meeting of its 40-member board to discuss the accord.

United Bank of Switzerland and Credit Suisse said they expected other Swiss companies and institutions to help finance the agreement they made in an out-of-court settlement of billions of dollars' worth of claims by Holocaust survivors.

The settlement involved the release of all claims not only against the two banks, but also against the central bank, the Swiss government, other commercial banks and Swiss industry.

Although welcoming the accord, the central bank stressed in a statement that it was not involved in the settlement negotiations.

It "holds the view that its subsequent participation in the costs of the settlement would lend this an official character, which is not in the interests of the country as a whole," the statement added.

The central bank, which was the central relay point for the bulk of gold

the Nazis sold to neutral nations during World War II, has said any obligations arising from its dealings had been settled in a 1946 treaty.

Insurance Claims to Climb

Claims against European insurance companies for policies sold to Jews who later died in the Holocaust could exceed \$1 billion, according to a leading American insurance regulator, The Associated Press reported from Jerusalem.

Deborah Senn, the insurance commissioner of the state of Washington, said in Jerusalem that a \$100 million settlement reached Wednesday in

New York between the Italian insurer Assicurazioni Generali and Jewish organizations was only a beginning and did not define the company's total debt to the survivors and heirs.

Ms. Senn serves on a nine-member task force negotiating with European insurance companies on the settlement of the claims.

She said the debt of Generali and the other European insurance companies could not be calculated until they all agreed to make their records public.

"The hundred million was a floor," she said. "It is my belief that these claims could easily be within the billion-dollar range or more."



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Evidence on Saudi Exile Is Called 'Very Compelling'

By James Risen
New York Times Service

WASHINGTON — The U.S. missile strikes in Afghanistan and Sudan came after U.S. intelligence and law enforcement agencies had compiled what officials described as the strongest evidence obtained to this time in a major terrorist case.

The American intelligence community has been convinced for years that Osama bin Laden, a Saudi dissident living in exile, has been involved in a long series of attacks against U.S. interests.

But the officials said they had more comprehensive and conclusive evidence than ever linking Mr. bin Laden to the bombings at the American embassies in Kenya and Tanzania earlier this month.

President Bill Clinton said that evidence provided the justification he needed to order the attacks.

But Mr. Clinton and his aides provided no real details of the evidence and, in some major aspects, the credibility of the administration's case against Mr. bin Laden was difficult to

assess, both for the embassy bombings specifically and for terrorist activities in general.

In his speech, Mr. Clinton accused Mr. bin Laden of an array of actual and plotted terrorist acts, from attacks on U.S. soldiers in Somalia to plots against the Pope and American airlines.

Perhaps the most detailed bit of evidence to back the accusations was not even spelled out by the president.

In Albania, the authorities, aided by U.S. intelligence agents, arrested five men who were described as Egyptian Islamic terrorists, and they seized material indicating that they intended to bomb the U.S. Embassy in Tirana, Albanians said.

U.S. officials said the plot was one of several attacks planned by Mr. bin Laden's network. It was not clear whether the plot was to have been carried out before or after the attacks in Africa.

U.S. government officials, who spoke on condition of anonymity, said credible evidence showed that a number of leading members of what they called an international terrorist network

sponsored by Mr. bin Laden would be gathering Thursday at a terrorist camp in Afghanistan, likely to plan further attacks on the United States.

By attacking the meeting site, the United States hoped to badly damage the terrorist network. The officials said they would not be able to assess the damage at the terrorist camp until later.

The government's counter-terrorism center, based at the Central Intelligence Agency, "feels strongly that there is as much and as rich evidence from a wide variety of sources on this case as they have ever had," a U.S. official said.

"Our information was convincing, and we had a high confidence level that these bombings were planned and carried out by bin Laden's network. And we had compelling evidence that bin Laden and his organization were planning further attacks. If we didn't take action, we were going to get hit, there's no doubt in our mind."

U.S. officials declined to provide any details of the evidence linking Mr. bin Laden to the embassy bombings, but they have said they strongly sus-

pected his involvement from the start. As their investigation gained momentum, they said, the links to Mr. bin Laden quickly began to emerge. In contrast with other recent major terrorist cases, which required months or years to solve, the evidence against Mr. bin Laden in the East Africa bombings came together with remarkable speed.

Officials would not comment on earlier reports from Pakistan that Mohammed Sadiq Odeh, a suspect arrested in Pakistan and sent back to Kenya for interrogation by the FBI and Kenyans, had told Pakistani investigators the bombings were the work of Mr. bin Laden's group.

"We had early indications, and over time the information got better," a U.S. intelligence official said. "We had multiple sources, and the picture was extremely convincing. You have to be careful how you weigh early information, but in this case it was very compelling."

"Rarely do numerous sources converge so uniformly and persuasively as they did in the course of our investigation into the responsibility for these terrorist acts," added Samuel Berger, the president's national security adviser.

The Zhawar Kili guerrilla camp, near Khost, Afghanistan, where the terrorist conference was expected to be held, was hit by sea-launched cruise missiles. American officials said that Mr. bin Laden had held a similar conference in Afghanistan in January, apparently to plan attacks against the United States.

Mr. bin Laden's networks have issued new terrorist threats against the United States since the embassy bombings. "We had information that something in the camp was going to take place today," said a senior U.S. official. "It's possible the meeting was to plan further attacks."

Americans say the camps have been in existence since the 1980s and they showed satellite photos of a vast complex that they said included the camps.

One American official said that since May, Mr. bin Laden has become increasingly cautious about his personal security, moving frequently.

U.S. Warships Timed Attacks From Arabian And Red Seas

By Steven Lee Myers
New York Times Service

WASHINGTON — The United States attacked targets in Afghanistan and Sudan with roughly 75 cruise missiles fired from navy ships in the Arabian and Red seas timed to strike their targets simultaneously, senior administration and military officials said.

The missiles struck at 1:30 P.M. eastern daylight time, more than 4,000 kilometers (2,500 miles) apart, after dark had settled in Afghanistan and as twilight waned in Sudan, the officials said.

Most struck six separate targets within a sprawling camp near Khost, Afghanistan, which President Bill Clinton called "one of the most active terrorist bases in the world." A smaller barge struck a factory in the Sudanese capital, Khartoum, that the Clinton administration maintained produced important components of chemical weapons, particularly VX nerve gas.

As the attack began, Secretary of Defense William Cohen ordered every American military base in the world to heighten its state of alert, increasing security in the event of retaliation from supporters of Osama bin Laden, the Saudi exile whom the United States accuses of sponsoring terrorism, including the embassy bombings in Africa this month.

As the missile attack was launched from a distance, there were no American casualties, the officials said.

The strike was the most significant military attack by the United States since September 1996, when the Pentagon carried out cruise-missile strikes in southern Iraq to punish President Saddam Hussein after an attack by Iraqi troops against the Kurdish enclave in northern Iraq.

It was also the first hostilities for Mr. Cohen, who joined the Clinton administration as its only Republican cabinet member in January 1997, and for General Henry Shelton, chairman of the Joint Chiefs of Staff, since he took over as the nation's senior military adviser last October.

"They were part of what the president's national security adviser, Samuel Berger, called 'a small group' of aides who drafted the plans in extreme secrecy at a time of considerable tumult in Mr. Clinton's presidency."

American military action appears, for now, to be limited to the strikes Thursday, but the president's senior advisers left open the possibility of additional action, especially if Mr. bin Laden's supporters retaliate.

"This doesn't foreclose anything," Mr. Cohen said. "What we have prepared and have to be prepared for is a long continuing effort to deal with terrorism."

The United States has a formidable array of forces in the region, the bulk of it devoted to keeping Iraq in check. A military official said the Pentagon did not have to increase its forces in the region to mount the strike.

Although Mr. Clinton had ordered a reduction from the peak levels reached during last winter's showdown with Mr. Saddam over weapons inspections, the United States still had more than 23,000 soldiers, 170 aircraft and 24 warships patrolling the Gulf, led by the aircraft carrier Abraham Lincoln.

Seven of those ships are fitted with Tomahawk cruise missiles, like those used in the attacks Thursday.

The missiles, 18 feet (5.5 meters) long and costing nearly \$1 million each, can carry 1,000 pounds of explosives, fly 700 to 1,000 miles and, with satellite guidance, strike their targets with remarkable precision.

Officials at the Pentagon were extremely reluctant to discuss where the cruise missiles were launched and from what ships.

However, the officials, speaking on condition of anonymity, said that two ships steamed to the Red Sea near Sudan while others launched the attack from the Arabian Sea off Pakistan.

Effectiveness Of Retaliation Is Debated By Specialists

By Serge Schmemmann
New York Times Service

NEW YORK — In the war against terrorism, experience suggests that any operation, whether an assassination or the sort of strike launched by the United States, has the quality of damned-if-you-do-and-damned-if-you-don't.

On the positive side, according to experts — especially in Israel, where the fight against terrorism has been waged longest and hardest — is the possibility that the strike on Thursday destroyed training sites and a chemical-weapons plant, and a few terrorists as well.

If American intelligence did, in fact, pinpoint sites used by the people behind the bombings of the American embassies in Kenya and Tanzania, the attack will also put terrorists on notice that they can never rest or let their guard fall.

On the down side is the fact that such attacks have not shown much effectiveness as deterrents. On the contrary, experts say, it is most likely that the targets of the action and their supporters will lash back.

Given the growing sophistication of militant groups in the use of media, it is likely that television cameras will be invited to record any civilian victims or injured by bombs, with the United States portrayed as a heartless bully, and President Bill Clinton as a scandal-wounded leader in search of sensational diversion.

But among Israelis, at least, after coping with terror for most of their history, the consensus is that Mr. Clinton did what he had to do.

"It all boils down to punishment, deterrence and prevention," said Joseph Alpher, the head of the Jerusalem office of the American Jewish Committee and an specialist on military affairs. "Even if it's revenge, it's meant to send a message that there will be a retaliation, and that is deterrence."

"If you look at the Israeli experience or the American experience, a deterrent message doesn't always work. Israeli operations have not necessarily deterred terrorism, and they often become part of a cycle of strikes and counterstrikes. But it does make it more difficult for terrorists to act."

"And if you don't retaliate," Mr. Alpher added, "you appear to be weak, not interested in deterring — an easy target. So the only answer is prevention. You kill terrorists, force them to duck, to keep their heads low, to worry about being discovered by American intelligence."

If that was the goal, one question is whether an air strike was the most effective method. Roger Clark, a professor of international law at Rutgers University in New Jersey, said the primary goal in the battle against terrorism should be to catch terrorists, "and I'm not persuaded that bombing is the way to go about it."

"The U.S. and Israel are the prime supporters of the notion of retaliation in the world," Mr. Clark said, "and they tend to make legal justifications that other people are uncomfortable with. I'm not convinced that punishment is useful as a deterrent. You have to try to catch some of the terrorists."

Edward Herman, professor emeritus at the Wharton School of the University of Pennsylvania, also found the strikes problematic. "I don't think these are very effective," he said. "It's very hard to bomb accurately. It is a violation of international law; there are United Nations rules. So when a country just chooses to drop bombs on two separate countries, they may kill people who are innocent bystanders, and it's likely to be counterproductive."

Yossi Melman, an Israeli writer specializing in intelligence issues, said that the American raids on Thursday might be viewed as a daring operation politically, but that questions were bound to arise about the timing.

"If Americans hadn't acted, they'd say Clinton was paralyzed by the affair," he said. "If he does, they say he's using this to divert attention. But he has to show that America is still a superpower, and doesn't tolerate actions against its installations and interests."

The problem with combating terror, the specialists agreed, is that success or failure cannot be measured in traditional military or law-enforcement terms. Ultimately, they said, the targets of terror must strike back. If only to demonstrate that they have not been cowed or demoralized.

Past Counterstrikes

How the United States has retaliated against previous terrorist actions.

ATTACK April 5, 1986
Terrorists bomb a Berlin disco, killing U.S. servicemen.

COUNTERATTACK April 14, 1986
U.S. bombs Tripoli and Benghazi, Libya.

ATTACK April 1993
Iraq is accused of trying to assassinate President George Bush in Kuwait.

COUNTERATTACK June 26, 1993
U.S. bombs Baghdad.

ATTACK Aug. 7, 1998
U.S. embassies in Nairobi and Tanzania are bombed.

COUNTERATTACK Thursday
U.S. bombs terrorist installations in Afghanistan and an industrial plant in Sudan.

QUESTIONS: A New Dimension in Struggle Against Terrorism

Continued from Page 1

both gained largely fighting Soviet forces in Afghanistan in the 1980s.

In addition to Western business experience gained through his family in Saudi Arabia and his own construction companies, he was trained by the CIA as a leader in semicovert operations in Afghanistan. With the collapse of the communist threat, he turned his campaign against the U.S. presence in Saudi Arabia and elsewhere in the Islamic world. In 1992, he was involved in the ambush of U.S. forces in Somalia. Washington now connects him with terrorist bombings in Saudi Arabia.

Is Washington responsible for the Taliban's position in Afghanistan?

During the Cold War, the United States backed and even incited anti-Soviet activity by conservative Arabs and Muslims, first to protect the oil-rich Gulf, then to create a quagmire for the Soviet army in Afghanistan. Forces set in motion by this cozy arrangement have spun out of control in some ways as Islamic fundamentalists challenge weak regimes in the Middle East — and sweep them away, as the Taliban did. Since

they consolidated their hold on power, Washington has not done anything to accommodate them.

How serious is the outcry in Muslim nations?

Mr. bin Laden's notoriety will certainly benefit among extremists, but the real agenda is very different for the main governments. Riyadh has often tried to placate Mr. bin Laden, sometimes refusing to cooperate with Washington. But Riyadh will now be forced to make tougher decisions about Mr. bin Laden, whose main objective is to overthrow the Saudi ruling family.

Why was President Boris Yeltsin of Russia so hostile?

Already faced with economic collapse, he had to defuse criticism from anti-American nationalists in the Russian Duma. But Mr. Yeltsin's overriding priority is getting economic help when Mr. Clinton visits Moscow on Sept. 1.

Russian strategists fear an extremist contagion from the Taliban in Muslim-populated former republics of the Soviet Union bordering Afghanistan.

Why was France so reserved?

France avoids anything that it fears might attract Islamic terrorism from Al-

geria. In addition, President Jacques Chirac worries about the pattern of U.S.-led military operations that show up Moscow's powerlessness and could eventually trigger a backlash in Russia.

The question is particularly sensitive because Washington has been trying to get French backing, most recently in a Clinton-Chirac phone conversation last Wednesday, for NATO military intervention in Kosovo, if necessary, by-passing the need for Russian endorsement in the Security Council.

Why weren't the allies involved?

The United States is the only country capable of launching a strike at such distances, with no pilots at risk and no countries to ask for permission, much less help. The Tomahawk missiles have always been accurate once they get close to their targets, but even as recently as the Gulf War the range involved in Thursday's strikes would have been too great for comfort. The key improvement was the deployment of satellite-borne electronics, known as the Global Positioning System, which in its military version can guide the missile over hundreds of miles without any need to rely on the terrain for orientation.

TIMING: 2 Crises for Clinton

Continued from Page 1

sibilities of his public life.

The White House on Thursday asserted that Mr. Clinton's decision to attack suspected terrorist installations was in no way linked to or affected by the Lewinsky controversy.

At a minimum, however, the response to Mr. Clinton's action showed how his legal and personal problems have altered the prism through which his presidential decisions are viewed.

Several Republicans Thursday raised the issue expressly. Senator Dan Coats, Republican of Indiana, said: "After months of lies and deceit and manipulations and deceptions — stonewalling — it raised into doubt everything he does and everything he says."

Some of the comments echoed those made when Mr. Clinton contemplated military action against Iraq in February.

However, Clinton aides said the president's schedule in recent weeks highlighted a remarkable ability to separate his public duties from his personal woes.

"He's got his priorities straight," said the White House press secretary, Michael McCurry. Even as the Clinton family is "working through some issues," he said, the president realizes that his first responsibility "is always as commander in chief."

That responsibility, the national security adviser, Samuel Berger, said Thursday, involved an element of subterfuge — behaving as if vacation was under way when, in fact, Mr. Clinton was very much working.

"One of the things that was indispensable to this operation was secrecy," Mr. Berger told reporters. "I have to say I have some degree of collective pride on the part of my colleagues that we were actually able to, for once, do that."

Even though Mr. Clinton had approved the concept of attacks last Friday, Mr. Berger said the president had the ability to halt execution until about 6 A.M. Thursday.

Relations Committee, also praised the strikes.

Representative Lee Hamilton, Democrat of Indiana, and ranking minority member of the International Relations Committee, said on ABC: "There was a remarkable convergence of the intelligence information here. It was real and is overwhelming."

A vocal few Republican legislators, including Senators Arlen Specter of Pennsylvania and Dan Coats of Indiana, said they were troubled by the timing.

The president announced the strikes three days after his deeply controversial admission of a sexual relationship with Monica Lewinsky, a former White House intern.

Asked about a comment by Senator Coats, Michael McCurry, the presidential spokesman, said the Indiana senator "stood out singularly as someone who suggested something that is not true."

Such suggestions drew anger from Mr. Clinton's Democratic supporters. Senator Joseph Biden of Delaware, ranking Democrat on the Foreign Relations Committee, called the criticisms "preposterous."

Mrs. Albright said that "our timing was based purely on what was necessary in responding to those horrible attacks

RUSSIA: State Duma Derides Yeltsin and Votes for Him to Resign

Continued from Page 1

paper Novye Izvestia and a highly regarded political analyst. "We can only pin our hopes on some semi-miracle that, in two years, Russia's savior may emerge."

Mr. Lasis and others are quick to stress that predicting Russia's future is a fool's job, and that Mr. Yeltsin in particular has risen from the dead before.

Still, the devaluation and debt restructuring of this week almost certainly will mean inflation, recession and less government revenue at a time when Russians are clamoring for stability, growth and billions of rubles in back wages and pensions.

None of that bodes well for market-style reforms or their proponents. To the contrary, political experts say the crisis has strengthened the two left-of-center politicians already regarded as the early presidential front-runners: Alexander Lebed, the former general who now governs the vast Siberian region of Krasnoyarsk, and Yuri Luzhkov, the canny

mayor of Moscow.

Both men are strong-willed, even authoritarian rulers. Although Mr. Lebed can be unpredictable, both lean less toward free markets than toward centralized control of the economy.

Mr. Luzhkov has a smooth political style. Mr. Lebed is rougher-edged but trying hard; his aides are discussing political and economic sessions with officials at Harvard University.

Neither would be a president even remotely like the mercurial but steadfastly Western-oriented Mr. Yeltsin. Nor would the other current major contender, Gennadi Zyuganov, the Communist who ran second behind Mr. Yeltsin two years ago.

Two other assumed candidates, Viktor Chernomyrdin and Grigori Yavlinsky, are more reform-minded, but neither has a large following.

Mr. Chernomyrdin also suffers because he was Mr. Yeltsin's prime minister during the birth of the policies that led to the economic catastrophe.

Friday, in the first hours of an emer-

gency session on the fiscal crisis, members of the Duma put aside Mr. Yeltsin's demands to overhaul the country's tax system and spent several hours flaying him and his advisers.

Russia's central bank no longer has the reserves to fix the ruble rate. Deputy Chairman Denis Kislov said Friday, according to an Agence France-Presse dispatch. Central bank reserves stood at \$15.1 billion as of Aug. 14, down from \$17 billion on Aug. 7.

Investors continued to stay away from the Russian stock market on Friday, with the benchmark RTS index finishing 5.56 percent lower. It is down nearly 80 percent for the year.

Mr. Yeltsin, on vacation for five weeks now, has struck a strange pose through all this.

Almost a week ago, in the old city of Novgorod, he thundered that the ruble would not be devalued and that he would not cut short his rest to return to Moscow because that would be viewed as evidence of a "disaster." Within hours, both events came to pass.

troops into that area to help Mr. Kabila's forces could not be confirmed.

On Thursday night, however, state television in Kinshasa showed, for the first time, troops from Zimbabwe arriving at the airport.

A European diplomat said Friday that soldiers from Zimbabwe had been coming to Kinshasa for several days, but that so far they numbered only in the hundreds.

The soldiers are expected to reinforce government troops that are being sent west of Kinshasa to help defeat a possible takeover of the capital by rebels.

Rwanda and Uganda have strongly denied any involvement in the rebellion, but on Friday they issued statements that appeared to belie those claims.

The Rwandan government condemned Zimbabwe and said that it now reserved the right to enter the Congolese conflict "in whatever manner it deems appropriate."

CONGO: Mandela Organizes Meeting in Pretoria to Discuss Crisis

Continued from Page 1

are deteriorating as this goes on. "Clearly, Rwanda and Uganda are unhappy. I think it will be difficult to see how this will all end."

For Mr. Kabila's government, the weekend talks will allow it to reinforce the point among the Congolese that outsiders started this civil war.

On Thursday, a leader of the rebellion offered to negotiate a cease-fire with Mr. Kabila's government, which immediately rejected any talks with the rebels.

"We want to negotiate with our real enemies, that is to say, Rwanda and Uganda," Dominique Sakombi Ilunga, a senior adviser to Mr. Kabila, said Friday in an interview in his office.

What we have realized is that the rebels are just servants. Why would we want to negotiate with servants? We'll negotiate with their masters."

Early this month, ethnic Tutsi from

eastern Congo began an uprising near the Rwandan border and in the region southwest of Kinshasa.

The Tutsi-led Rwandan government, with its Ugandan ally, is believed to have encouraged and helped the rebels to try to overthrow Mr. Kabila, the same man both countries plucked from obscurity less than two years ago to lead a successful coup against Congo's longtime dictator, Mobutu Sese Seko.

At first, Mr. Kabila had many Rwandan top aides in his government, but got rid of them as his popularity plummeted.

Residents in Kinshasa and elsewhere in the country openly express their hatred of the Tutsi and Rwandans.

Mr. Sakombi said that the government is succeeding in counterattacks on the rebel forces in the region near the Atlantic by using Angolan jets to bomb rebel troops.

Reports that Angola had also sent

RIPOSTE: Tightening Security, U.S. Warns That Attacks Are Start of a 'Long-Term Battle' Against Terrorists

Continued from Page 1

weapons, and we have physical evidence of that fact."

Pakistan at first claimed that at least one stray missile had landed on its territory, just across the border from the Afghan target sites, killing five or six persons. Later it retracted the statement.

Undersecretary of State Thomas Pickering said that the missile had landed on Afghan territory and might have killed Pakistani nationals who were then brought across the border to a Pakistani hospital.

The Pentagon did not dispute the casualty figures from Sudan or Afghanistan. Mr. Berger said the United States had no knowledge of any "unintended" casualties.

Because of cloud cover over the Afghan sites, he said, it would be days before U.S. satellites could provide an accurate damage assessment.

There were reports that Mr. bin Laden had survived the attacks. Mr. Berger said Mr. bin Laden's whereabouts were unknown and that it was unclear whether any of his top lieutenants had been killed.

He said the purpose of the attacks was "not specifically to target bin Laden"

but "to target his infrastructure, his network and one of the largest terrorist training camps in the world."

The Sudanese government protested the attacks to the United Nations, calling them an offense against its sovereignty.

The matter was not raised Friday at the first UN Security Council meeting after the U.S. strikes. Danilo Turk of Slovenia, which holds the rotating presidency of the council, said, however, that the United States had circulated a letter at the meeting invoking Article 51 of the UN Charter. That article permits strikes intended to prevent an imminent threat. Mr. Berger called the attacks "both appropriate and lawful."

The attacks, which U.S. officials said involved assistance from no other country, were endorsed by some key U.S. allies, most strongly by Britain and Israel.

Chancellor Helmut Kohl of Germany said of the attacks, "I can understand that." And the Japanese prime minister, Keizo Obuchi, expressed his "understanding."

But President Boris Yeltsin of Russia condemned the U.S. action, complaining that he had been given no advance notice and that U.S. negotiations with Afghan and Sudanese authorities should have

"been held to the last."

Mr. Berger said that no foreign leaders had been informed in advance of the strikes but that some were phoned simultaneously.

Asked about Mr. Clinton's meeting next month in Moscow with Mr. Yeltsin, he said, "The fact that there's a disagreement on this particular issue, I don't believe will affect the summit at all."

Mr. Clinton, Vice President Al Gore and Mrs. Albright phoned other foreign leaders Friday, Mr. Berger said.

The president later returned to Martha's Vineyard to resume his vacation.

The 22-member Arab League issued a strong condemnation of the strikes from its headquarters in Cairo. Sudan currently holds the rotating presidency of the league.

In Washington, key members of Congress were strongly supportive of the president. The Senate majority leader, Trent Lott, Republican of Mississippi, called the attacks "appropriate and just." The House speaker, Newt Gingrich of Georgia, said, "I think the president did exactly the right thing."

Senator Jesse Helms, Republican of North Carolina, chairman of the Foreign

on Americans" and on evidence that a large number of terrorists had gathered at the Afghan site.

Public support was strong, one survey showed, for what was the boldest show of military force in Mr. Clinton's presidency. A CNN poll taken immediately after the strikes were announced found that 66 percent of Americans favored the attacks, while 19 percent were opposed.

But nearly half of Americans said the bombings would increase terrorism.

U.S. officials, while acknowledging that terrorist retaliation was likely, insisted repeatedly that the strikes were intended to head off terrorist attacks already planned. "We have been the bull's eye," said Undersecretary Pickering. "We are the bull's eye."

In the United States, the FBI and other authorities warned police and the public to be on the alert. In Washington, federal workers were encouraged not to wear their security passes in public. Subway passengers were warned to watch for suspicious-looking packages. Patrols were increased around national monuments.

Operations at U.S. diplomatic posts in five African countries, including Sudan, have been suspended since the embassy bombings. The United States has no diplomatic post in Afghanistan.

Target: Terrorism / The World Reacts

Allies Back U.S., Yeltsin Is 'Outraged,' and Muslims Are Furious

Russian Chief, Saying He Got No Warning, Denounces Action

By Sharon LaFraniere
Washington Post Service

MOSCOW — President Boris Yeltsin said Friday that he was "outraged" by the U.S. missile strikes on targets in Afghanistan and Sudan, adding that he had no advance warning of the attacks.

"My attitude is indeed negative, as it would be to any act of terrorism, military interference, failure to solve a problem through talks," said Mr. Yeltsin, speaking at an airport near the Arctic city of Murmansk, where he was en route to view naval exercises. "I am outraged, and I denounce this."

Asked whether he knew about the strikes in advance, Mr. Yeltsin said, "I can tell you honestly I did not know. It looks like the whole world did not know about it. That makes it even more indecent."

According to Mr. Yeltsin's press service, Mr. Yeltsin received President Bill Clinton's explanation for the strikes on Friday.

Mr. Yeltsin's press secretary later tried to soften Mr. Yeltsin's reaction, saying that Washington and Moscow "are in the same boat as far as the struggle against terrorism is concerned" and that Russia understands how much suffering the embassy bombings had caused and wants to work with the United States against terrorism. But he added, "President Yeltsin was angered by the fact he had not been informed of this problem."

The Foreign Ministry issued its own statement, saying that the unilateral U.S. military actions "no matter how they are explained, cannot but raise deep concern. Such actions do not bring us any closer to the aim of rooting out terrorism and could create a dangerous precedent."

The last Soviet leader, Mikhail Gorbachev, also said he did not consider the attacks "legitimate or balanced" and warned that they could set "a bad precedent that other countries might follow."

Kohl and Schroeder Back U.S.

William Drozdzak of The Washington Post reported from Berlin:

In a ringing declaration of support, Chancellor Helmut Kohl of Germany praised Mr. Clinton's decision to strike targets in Afghanistan and Sudan and insisted that the United States had every right to retaliate for bomb attacks against its embassies in East Africa.

"There is no scourge today worse than international terrorism," Mr. Kohl said in Bonn. "Every nation has the right to defend itself against such atrocities as happened at the American embassies in Africa."

Mr. Kohl said that he had not talked with Mr. Clinton since last week but that he was kept fully informed through proper channels. Germany evacuated its citizens from Pakistan, Sudan and Afghanistan in the days before the attack.

The chancellor heaped scorn on critics of the U.S. cruise missile attack, saying, "Those who are complaining about it now should take a look at the photographs of the civilians who were slaughtered in a fashion that should fill everyone with disgust."

Gerhard Schröder, Mr. Kohl's Social Democratic rival in the national election next month, also expressed support for the air strikes and said he assumed that Mr. Clinton's decision was made on the basis of firm evidence that the targets were justified. "I think when you look at the basis of his decision, you have to understand that a world power like America can't simply accept such a terrible scale of terrorist attacks," he said.

French Are Tepid, but Blair Isn't

France on Friday voiced support for U.S. strikes in Afghanistan and Sudan, but its backing came later and sounded cooler than that of other major U.S. allies, Reuters reported from Paris.

The first official reaction was issued

more than 15 hours after the raids were announced Thursday.

"France takes note of the decision by U.S. authorities who carried out yesterday's bombings and invoked the right to legitimate self-defense recognized by international law," a Foreign Ministry statement said.

Prime Minister Lionel Jospin, meeting with Prime Minister Tony Blair of Britain, told reporters in his southern France constituency that he understood that a wounded United States had wanted to retaliate.

At his side, Mr. Blair was more forthcoming, saying, "A country like the United States, when its citizens are under attack in this way and when they are at risk, must have the right to defend itself and we support our allies in this cause."

Pakistan Sees 'Dangerous Precedent' in Missile Attack

By Raymond Bonner
New York Times Service

ISLAMABAD — The Pakistan government on Friday condemned the U.S. attack on alleged terrorist bases in neighboring Afghanistan, calling it a violation of the norms of international behavior and saying that it sets a "dangerous precedent."

It also summoned a senior American diplomat to the Foreign Ministry to receive an official protest over the "pre-emption" that the missiles launched into Afghanistan, where the target was alleged terrorist training camps, flew through Pakistan air space without permission. Whether the Pakistan government gave that permission is in dispute.

The government also lodged a protest that one of the cruise missiles had gone astray, landing in Pakistan and killing six people. Late Friday evening, however, the government withdrew the charge.

The American missile attack on Thursday night was aimed at a training complex run by Osama bin Laden, who U.S. officials have charged was the mastermind behind the bombings of the American embassies in Kenya and Tanzania on Aug. 7. Simultaneously Thursday, the United States launched a missile barrage on a chemical weapons factory in Sudan, which officials also linked to Mr. bin Laden.

The Pakistani government was engaged in a delicate balancing act Friday, between not being too harsh on the United States, an important ally, but not seeming too soft, lest it fuel the anger of the country's militant Islamic groups, which are capable of putting tens of thousands of protesters on the streets.

Non-American diplomats said the



Angry Pakistani students protesting in Islamabad on Friday over the missile strike in neighboring Afghanistan.

Pakistani protests over the attack were not as strong as they might have been and appeared to be aimed primarily for domestic consumption.

On the streets of the capital, and in other cities around the country, condemnation of the American attack was widespread, if not universal, cutting across class and political lines. There were small demonstrations here and in the country's other major cities, but no reported casualties. Many of the demonstrations began after Friday prayers and there was the obligatory burning of the American flag for the cameras.

One volatile issue here is whether the Pakistan government gave permission for the missiles to fly over Pakistan on their way to Afghanistan. It has been reported that such permission had been given.

The Foreign Ministry categorically denied Friday that it had given permission or been asked for it.

Two senior non-American diplomats, from countries closely allied with the United States, sided with the Pakistani version. One said that American officials

Islamic Clerics, Officials and Ordinary Citizens Condemn Attacks

By Douglas Jehl
New York Times Service

JERUSALEM — In mosques, on street corners and from some government ministries, many Muslims voiced fury Friday over the American missile strikes in Afghanistan and Sudan and predicted that the assault would beget more violence.

The condemnations came from around the Islamic world and were issued by clerics, officials and ordinary citizens.

American flags were burned in Libya, Pakistan and on the West Bank, and on this Islamic holy day, calls to prayer even in the heart of Jerusalem were followed by angry inveighing against what was being called "aggression on

our Muslim brothers."

"We ask God to foil the Americans' evil plans," Youssef Abu Sneh, an imam of the historic Al-Aqsa Mosque, declared in a Friday address to some 30,000 worshippers at midday services inside the walled Old City.

For their part, most Arab and Muslim governments remained silent or equivocal about their views on the missile strikes. Jordan said it had reserved judgment about the operation; Egypt, the United States' most important ally in the region, issued a statement that made no mention of the American attack but called instead on the United Nations Security Council "to take the appropriate decision against terrorism."

But along with Iraq and Libya, Palestinian politicians on the West Bank

joined in denouncing the attacks as examples of American arrogance. And any Arab or Muslim leader who might have sympathized with the American action was bound to have had second thoughts Friday after hearing outrage from the streets.

"Those stupid Americans: they should find a peaceful way to solve the problem of terror," said Ahmed Makram, an Egyptian Air steward in Cairo, voicing the kind of complaint that could be heard around the Islamic world. "What they are doing now is just pouring oil on the fire, and of course, more wars and terror attacks are ahead as long as they do not change their policy."

The most violent response to the American raids was reported in Sudan, where a suspected chemical weapons factory on the outskirts of the capital, Khartoum, was the target of one set of Thursday's missile strikes. An angry mob in Khartoum retaliated Friday by stoning the deserted U.S. Embassy.

But their loud protests also echoed outside a United States Information Service center in Islamabad, the Pakistani capital. In the Libyan capital of Tripoli, an American flag was burned at a rally whose participants included the country's leader, Colonel Moammar Gadhafi, who was himself the target of an American air attack in 1986.

In Iran, cries of "Death to America" rose up from morning prayers at Tehran University, where a senior Iranian cleric, Ayatollah Ahmad Jannati, accused Washington of "waging a war against Islam."

And in Palestinian-ruled areas of Gaza and the West Bank, demonstrations organized to commemorate an attack nearly three decades ago on the Al-Aqsa Mosque suddenly assumed a more urgent focus.

In Gaza, Sheikh Ahmed Yassin, the spiritual leader of the militant Islamic group Hamas, told a rally that "the one who sows, reaps, and America will reap the harvest of its aggression." And in the West Bank town of Nablus, more angry protests were kindled by a particularly fiery Friday prayer sermon in a local mosque. At least 500 people who gathered outside cheered two masked youths who burned American flags, jeered President Bill Clinton and even chanted praise for Osama bin Laden, whose alleged terrorist network was the target of the American missile strikes.

"Clinton, be patient, or bin Laden will dig your grave!" they said.

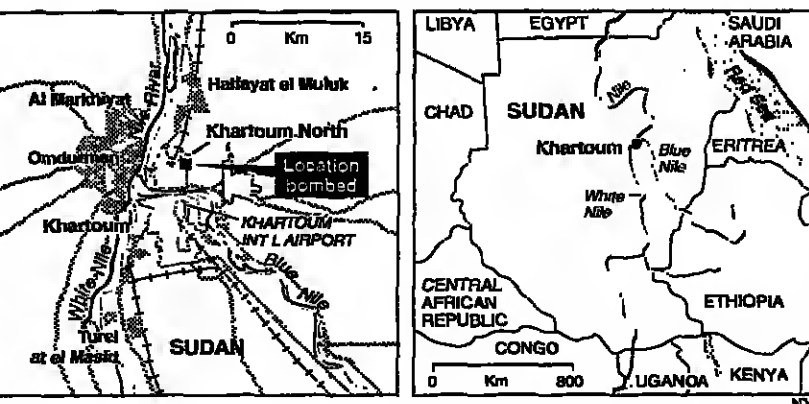
Elsewhere in the Middle East, the leaders of other militant Islamic groups issued warnings that were similarly dark.

In Lebanon, a spokesman for the Iranian-backed Hezbollah predicted that the strikes would incite more attacks on American interests around the world. And that sentiment was echoed from Egypt, where Mustafa Mashour, the leader of the outlawed but influential Muslim Brotherhood, said the effect of the American operation would be to "cause more hatred against America and ignite the flame and instability in the region."

The statements were particularly stark against the backdrop of silence from so many Arab governments, including most of those that took part in an emergency anti-terrorism summit meeting that Mr. Clinton convened after a rash of suicide bombings in Israel in early 1996.

At that meeting, the leaders of Egypt, Jordan and the Palestinians, along with senior officials from Saudi Arabia and other parts of the Arab world, joined Mr. Clinton and Prime Minister Benjamin Netanyahu of Israel in a joint declaration in which all vowed to work together in battling terrorism around the world.

Those Arab governments have since been outspoken in condemning acts of terrorism around the world, whoever the target. Many have long employed ruthless tactics in their own struggles against terrorism. But most have also kept a careful ear to public opinion, and they have remained wary about endorsing harsh action by the United States or Israel.



Sudan Recalls Its Diplomats And Vows America Will Pay

The Associated Press

KHARTOUM, Sudan — Sudan recalled its diplomats from Washington on Friday to protest the U.S. missile strike on a factory in the Sudanese capital a day earlier.

After an emergency meeting with his cabinet, the president of Sudan, Lieutenant General Omar Hassan Ahmad Bashir, also announced that his country would file complaints with the United Nations, the Arab League and the Organization of African Unity.

He said Sudan could "prove that the factory is specifically for pharmaceutical production" and not a chemical weapons facility, as U.S. officials have asserted.

General Bashir later spoke at a rally outside his office as people chanted "Down, Down USA!" and burned an American flag.

The number of casualties in the missile strike was unclear. Hospital officials in Khartoum said 10 people were being treated for injuries, including four who were in critical condition. But workers at the factory site said there was concern that some victims could be buried in the rubble. They said that the factory janitor and his family had not been accounted for.

Sid Ahmed Hajj Hamad, the administrative director at the factory, estimated the damage at \$100 million.

General Bashir said the factory, belonging to El-Shifa Pharmaceutical Industries Co., had been hit by six Tomahawk cruise missiles. A seventh missile missed, he said. He did not indicate whether it had caused any damage.

State-run television said that the factory, which was opened in 1996, produced about half of the country's medi-

cines and that its main products were antibiotics and drugs to treat malaria and tuberculosis.

The government asserted that President Bill Clinton had approved the attack to divert public attention from the grand jury investigation into his dealings with Monica Lewinsky.

A statement issued by the Sudanese Embassy in Nairobi said that "the timing was chosen to serve the wish of a sexual pervert and maniac to divert attention away from his crumbling credibility and reputation."

General Bashir said, "Clinton and America will have to pay," adding that "Sudan is for Islam, and we will not be bullied by Americans."

He pledged to "pursue all diplomatic channels" over the missile attack but also said the government was "opening all training camps" for volunteers for the national militia.

Overnight, Sudanese demonstrators stormed the empty U.S. Embassy compound in Khartoum and pulled down the American flag to protest the attack.

The U.S. State Department ordered local staff to leave the embassy after the bombings on Aug. 7 of American embassies in Nairobi and Dar es Salaam, Tanzania. American diplomats were pulled out of Khartoum in 1996.

Earlier in the day, hundreds of Sudanese walked through streets made muddy with rain to view the steel-and-concrete rubble of the four-story factory. "Are these people crazy?" a young woman who worked at the factory asked, referring to the planners of the attack. "Do you think this is really a weapons factory?"

Americans Abroad Cautioned in Wake Of Missile Strikes

New York Times Service

Following are excerpts from a State Department advisory issued Thursday on Americans traveling or living abroad:

In light of the recent U.S. military strikes against terrorist targets in Afghanistan and Sudan, and possible threats to Americans and U.S. interests overseas, the Department of State urges U.S. citizens traveling or residing abroad to review their security practices, to remain alert to the changing situation, and to exercise much greater caution than usual.

Large crowds and other situations in which anti-American sentiments may be expressed should be avoided. U.S. diplomatic posts worldwide are taking appropriate security precautions.

American citizens traveling abroad should contact the nearest U.S. embassy or consulate by telephone or fax for up-to-date information on security conditions.

U.S. Seeks Proof on Saudi's Role

By James C. McKinley Jr.
New York Times Service

NAIROBI — After ordering missile attacks against targets in Afghanistan and Sudan on Thursday, President Bill Clinton said the United States had firm evidence that earlier terrorist bombings of two U.S. embassies in East Africa were the work of an exiled Saudi millionaire and Islamic militant, Osama bin Laden.

But the head of the Federal Bureau of Investigation said Friday that his agents still had a long way to go before putting together a conspiracy case that would hold up in an American court.

"We are still in a fairly preliminary stage," the director, Louis Freeh, said at a news conference just before boarding a plane in Washington.

Mr. Freeh declined to answer questions about evidence agents had collected in the investigation that would link the plotters to Mr. bin Laden.

Nor would he talk about the statements the main suspect in custody, Mo-

ammed Siddiqi Odeh, has made to FBI agents and the Kenyan police about the embassy bombings.

Sheila Horan, the special agent in charge of the investigation, said Mr. Odeh still had not admitted to U.S. authorities that he took part in the Aug. 7 bombings, which killed more than 250 people here and in Dar es Salaam, Tanzania.

Nor has he implicated others, she said.

Mr. Freeh said forensic evidence had been found suggesting the two vehicle bombs, which detonated within minutes of each other, might have been constructed of the same materials.

FBI officials refused to comment on an unconfirmed report in a local newspaper that said three witnesses had picked a second suspect out of a police line-up, fingering him as the man who threw a grenade at security guards manning a barrier behind the U.S. Embassy, just seconds before the bomb exploded.

The suspect was identified by The Nation newspaper as Khalid Mohammed. No other details were given.

Earlier, a UN transport plane that came in from Islamabad, Pakistan, left Kabul after picking up 10 foreigners, one of them reported to be a French national, one of the two UN men wounded early in the day.

The French citizen said he had been hit as he traveled with other officials through the city in a minibus that came under gunfire.

An Italian who was wounded in the shooting was believed to be in a Kabul hospital.

Both were working for the United Nations Special Mission for Afghanistan.

Only about 40 foreigners were still in the city after the Taliban forced out employees with nongovernmental organizations last month.

Most of the city, captured by the Taliban in September 1996, was asleep when President Bill Clinton announced the attack on targets in Afghanistan and a suspected chemical weapons-related facility in Sudan.

The strikes were aimed at groups linked to Mr. bin Laden, who, Mr. Clinton charged Thursday, had played a key role in the embassy bombings that

left 257 dead and thousands injured.

But the exclusive head of the Taliban, Mullah Mohammed Omar, again denied that Mr. bin Laden had been involved in the bombings and he vowed not to hand him over to U.S. authorities.

In the Taliban power base of Kandahar, about 8,000 militant and bearded demonstrators chanted "Death to America!" paraded through the streets.

The marchers dispersed after a meeting marked by fiery exclamations of hatred against the United States and Iran. At times they shouted against Russia.

The rally warned the United States against continuing its "aggression" against Afghanistan and vowed to defend the Saudi dissident who took asylum in Afghanistan.

All markets and shops were closed in Kandahar.

In a statement released to a group of Pakistani journalists, Mullah Omar said the United States had committed an outrage against the entire Muslim world with "unfounded" allegations against Mr. bin Laden.

EDITORIALS/OPINION

Herald Tribune

PUBLISHED WITH THE NEW YORK TIMES AND THE WASHINGTON POST

The U.S. Attacks

Credible Evidence

The United States has every right to attack suspected terrorists if there is credible evidence showing that they were involved in attacks against U.S. citizens or were planning such attacks. That seems to be the case in the missile attacks ordered by President Bill Clinton in Sudan and Afghanistan, an impression strengthened by quick support from the House speaker, Newt Gingrich, Senator Orrin Hatch and other leading Republicans. But since those attacks were ordered from a White House weakened by scandal, Mr. Clinton needs to take extra care to reassure the United States that the attacks were not timed to help repair his shaken presidency.

Intelligence officials reported Thursday that they had collected convincing information from numerous sources that the terrorist organization of Osama bin Laden was responsible for the deadly truck bombings of the U.S. embassies in Kenya and Tanzania earlier this month. Mr. bin Laden is a Saudi multimillionaire reportedly turned terrorist who has openly threatened to attack Americans anywhere in the world.

The Pentagon's selection of targets looks reasonable. One of the sites was described by General Henry Shelton, chairman of the Joint Chiefs of Staff, as a terrorist training camp in Afghanistan operated by Mr. bin Laden. He said the other target was a factory in Khartoum, the Sudanese capital, that was used to make chemicals for nerve gas.

Intelligence officials said Mr. bin Laden had subsidized Sudan's chemical weapons program.

Though the U.S. raids came only three days after Mr. Clinton addressed the nation and testified to a grand jury about the Monica Lewinsky case, Pentagon officials said the timing had been

dictated by the threat that the bin Laden network might strike Americans again within days. If so, that would also justify the quick U.S. action.

Retaliating against terrorists may invite further terrorism, but effective military strikes can at least temporarily hinder training and planning by terrorist groups. Certainly U.S. inaction in the face of hard evidence of terrorist activities would be irresponsible.

But combating terrorism should not be an excuse for cloaking U.S. military actions in secrecy, as Pentagon officials tried to do Thursday. To sustain public support for anti-terrorist actions, the administration needs to tell Americans as much as possible about how the raids were conducted and whether there were civilian casualties.

President Clinton and his national security team seemed at pains Thursday to demonstrate that he had not unleashed U.S. power to deflect attention from the Lewinsky case. Mr. Clinton pointedly noted that he had ordered the attacks on the unanimous recommendation of his aides. Samuel Berger, the national security adviser, reported that military planning had begun on Aug. 12 and that Mr. Clinton had authorized preparations for the attack last Friday.

Those accounts were reassuring. Still, the picture of Mr. Clinton striding purposefully back into the White House Thursday as commander in chief could not help but supplant the image of an emotionally wounded first family departing for a vacation on Tuesday.

Mr. Clinton can dispel any lingering doubts about his motivation by providing the House and Senate intelligence committees with a complete briefing on the bin Laden information and instructing his aides to fill out the partial accounts they have given about the raids.

—THE NEW YORK TIMES.

Right to Fight Back

The United States was correct to send its military forces into action against terrorist bases in Afghanistan and Sudan Thursday. The bombings two weeks ago of U.S. embassies in Kenya and Tanzania that killed more than 250 people and wounded thousands were an act of war. This is not the kind of war many Americans grew up with, but it is war nonetheless. The United States has not only a right but an obligation to fight back.

In fashioning a response to terrorism, which by definition is conducted from the shadows, the United States always will face the question of what threshold of evidence must be crossed before a counterattack is justified.

Americans above all must take care not to lash out without cause. Yet it will not always be possible to build a fool-proof and public case. When the evidence is compelling and the imminent threat to Americans real, as Mr. Cohen said it was in this case, terrorists must know they have no sanctuary.

Congress will have a role to play in checking and weighing the administration's case, in secret if necessary. But already the House speaker, Newt Gingrich, has said that, having been well briefed during the past two weeks, he believed the attack was "the right thing to do at the right time."

Certainly, Osama bin Laden, the Saudi millionaire turned terror-master whose network was the object of Thursday's attack, has made no secret of his goals and methods. He has openly declared war on Americans and on Jews. "We do not distinguish between those dressed in military uniforms and civilians," he has said. "You will leave when the bodies of American soldiers and civilians are sent in the wooden boxes and coffins. That is when you will leave."

Mr. bin Laden is believed to command a network of 3,000 fighters, who he claims attacked American soldiers attempting to relieve famine in Somalia in 1993. His followers have claimed credit for the 1995 Riyadh bombing that killed seven, and he is suspected in the 1993 World Trade Center bombing in New York and the 1996 Khobar Towers bombing that killed 19 U.S. servicemen in Saudi Arabia.

A few Republicans on Thursday questioned whether President Bill Clinton had ordered the attack to distract from his personal and legal troubles. But there is no possibility that Mr. Cohen or

General Henry Shelton, chairman of the Joint Chiefs of Staff, would order U.S. forces into action if they were not convinced of the necessity. As Senator Jesse Helms, Republican chairman of the Senate Armed Services Committee, said Thursday, "Sooner or later terrorists will realize that America's differences end at the water's edge, and that the United States' political leadership always has, and always will, stand united in the face of international terrorism."

So Mr. Clinton has taken the right step. But it is important to understand that this is only one step. Whatever the immediate effects of this one-time strike, there is a danger that the terrorists will retaliate. Experience has shown that the risks of such retaliation are more bearable than the risks involved in doing nothing to defend America's interests. But the risks are real, and they mean that the United States cannot expect one battle to end this war.

"This is an organization dedicated to killing Americans," Mr. Gingrich said. "We have an obligation to hit them, and if necessary to keep hitting them, until they lose all of their ability to hurt Americans."

—THE WASHINGTON POST.

Other Comment

Clinton's Gamble

Straight after his testimony to the grand jury in the matter of Monica Lewinsky, Bill Clinton took a gamble. It may turn out to be the biggest gamble of his career.

He gambled that being found to have told lies about a sexual fling does not merit a real apology. He assumed that Americans believe his private behavior is his own business and nobody else's. And he presumed that the independent counsel, Kenneth Starr, has nothing more substantial to pin on him. Thank you for watching, and good night.

Mr. Clinton spent his fiercest moments defending his right to a private life and lambasting Mr. Starr for his "prying" and "personal destruction."

This was no Richard Nixon, bunched and gray, trying to hold back the almost palpable hatred of the public; it was a vigorous and defiant performance. But what Mr. Clinton said was not good enough, and it will not be the end of the tale.

—The Economist (London).

It's Time to Recognize That Milosevic Is the Problem

By Christopher Bennett

SARAJEVO, Bosnia-Herzegovina — It's déjà vu all over again: ethnic violence in the former Yugoslavia, streams of refugees fleeing the fighting and a procession of diplomats beating a path to the door of Slobodan Milosevic, the Yugoslav president and butcher of the Balkans.

More than seven years after the beginning of the wars of Yugoslav dissolution, it seems that the international approach to the conflict has not changed one iota. No statesman is prepared to accept the political risk involved in tackling the root of the problem.

Instead, international envoys shuttle between their capitals and Belgrade, hoping that despite his record, despite the benefits he personally reaps from the fighting, indeed despite all logic, Mr. Milosevic will provide a solution.

Maybe 1998's crop of mediators missed the events of the past decade in the Balkans. If so, a brief recap of some of the highlights, including how Mr. Milosevic acquired his nickname, may be of some help.

Mr. Milosevic came to absolute power in Serbia in 1987. At the time, living standards there, as in the rest of Yugoslavia, were spiraling downward, prospects of recovery within the existing system were bleak and Mr. Milosevic promised a Serbian renaissance. Moreover, in 1988 and 1989 he appeared to deliver as he forcibly extended Serbia's authority over Vojvodina, Montenegro and Kosovo.

Soon, however, Mr. Milosevic's promises began to ring hollow as the economy continued its downward course. In fact, he had succeeded only in imposing Serbian ethnic rule on some of the country's non-Serb populations. It was not exactly a recipe for long-term stability, just the Milosevic approach to problem-solving — resolving one crisis by manufacturing another, inevitably greater, to divert attention from the first.

On March 9, 1991, frustration within Serbia boiled over and Belgrade rose against Mr. Milosevic. Indeed, the first person to be killed by the Yugoslav Army in the year that full-scale hostilities broke out in the former Yugoslavia was not a Slovene, not a Croat, not a Bosnian Muslim but a Serb student caught among the anti-Milosevic protesters that day.

Within the month one Serb and one Croat had been killed in ethnic violence in Croatia, the inexorable descent into war had begun — and Mr. Milosevic was off the hook at home.

Wars in Slovenia, Croatia and then Bosnia successfully diverted attention from the shortcomings of Mr. Milosevic's rule in Serbia, but these were wars that Serbia and Serbs in general could only lose. Indeed, when the tide of battle turned and it became clear that further fighting could only harm his

position, Mr. Milosevic changed tack to advocate peace.

But this was not before massive atrocities had been committed and more than 2 million people had been displaced. In December 1992, Mr. Milosevic was named a war criminal by U.S. Secretary of State Lawrence Eagleburger.

For Mr. Milosevic, power and his own political survival are alpha and omega. Moreover, his survival has depended and continues to depend on conflict. A prolonged period of peace is too revealing a state of affairs, for it gives ordinary people the time to take stock and to work out the scale of their losses.

Not so long ago, in the winter of 1996-1997, Belgrade challenged Mr. Milosevic's rule with daily demonstrations. Tens of thousands of people took to the streets.

That's over. Now Serbs again stand united, this time in the struggle against "Albanian terrorism," with Mr. Milosevic at the head of yet another national crusade. It is just not in his interest to halt the war, not now, not while he is winning.

The tragedy is that many thousands more Albanians and Serbs will be forced to flee the fighting. Though both peoples have legitimate interests in Kosovo, prospects of a settlement that would reconcile those interests recede with each day and every additional casualty. The tragedy does not end there. The

war in Kosovo cannot be isolated, and Mr. Milosevic still has other crises to manufacture in the region.

As fighting escalates in Kosovo, neighboring Macedonia moves inexorably closer to the brink. The fragile consensus between that country's Albanians, who make up at least 23 percent of the population, and the Macedonian majority is now unraveling as Albanians empathize with their ethnic kin and Macedonians support the Serbian position.

Moreover, the stability of Albania, too, is under threat, with the north of the country increasingly beyond Tirana's control and former President Sali Berisha attempting to resurrect his career on the back of the Kosovo conflict.

Meanwhile, in Yugoslavia itself, Mr. Milosevic still has a Pandora's box of unresolved national questions to open whenever his needs so dictate — questions on the predominantly Muslim Sandzak region, on Montenegro and on Vojvodina.

Unless the international community finally wakes up and recognizes that Mr. Milosevic himself is the problem and not the solution, it will be cleaning up after him for years.

The writer is the director of the International Crisis Group's Balkans project and the author of "Yugoslavia's Bloody Collapse." He contributed this column to the International Herald Tribune.

America Needs to End Its Outdated Embargo of Cuba

By Flora Lewis

HOLETOWN, Barbados —

Cuba's President Fidel Castro was here recently as part of his courtship swing through the Caribbean. Apart from a few grumbling letters to the editor in the local paper, he was warmly welcomed. Prime Minister Owen Arthur even compared Cuba's global role to China's global role, much too important a market to try to isolate and therefore well worth cultivating.

A decade ago this reaction was scarcely imaginable. Barbados was one of the Caribbean countries that applauded the U.S. invasion of Grenada, not because of President Ronald Reagan's flimsy pretext of protecting American students but because of real fears of Cuban attempts to export revolution backed by military force.

Like most of the island states in the region, Barbados was deeply fensic. A few hundred Cuban troops could have easily overwhelmed it. So the clear warning by the United States that it would not allow such Cuban expansion came as a relief to people here.

Mr. Castro has not made such dramatic changes in domestic

policy as Deng Xiaoping and his successor did in China. He is still a determined Communist revolutionary. But nobody is afraid of Cuba anymore. Even the Pentagon has ruled that Cuba no longer poses any kind of threat.

This is due to the collapse of the Soviet Union, not only as the military and economic guarantor of Mr. Castro's regime but also as some Marxists around the region, but there is no chance of their coming to power.

So Mr. Castro's effort to end his country's isolation and become a full member of the economic, political and cultural neighborhood is receiving an eager response.

The Caribbean is made up of mostly very small countries, proudly independent but quite aware of the need to combine their negotiating strength if they are to have any weight in the world.

There is already strong support for getting Cuba accepted as a member of the Lomé agreement, which provides preferential

tariffs in the European Union for what are called ACP countries.

These are former European colonies in Africa, the Caribbean and the Pacific whose trade patterns would have been devastated by independence without some special treatment. Cuba has not been a colony in this century, but it seems natural for it to have equal status and full regional ties.

The problem, of course, is the United States and its rigid anti-Castro policy, which it attempts to impose on third countries.

Nobody, outside of some (but not all) Cuban exiles based in Miami and diehards in Washington, sees any point to the continued embargo on Cuba.

After nearly 40 years, the aim of provoking Mr. Castro's downfall has obviously failed. The embargo has only inflicted serious hardship on the Cuban people and prevented any Cuban contribution to regional development.

The American policy brings resentment and ridicule from the rest of the area. It is widely understood that the policy has

become almost entirely a matter of domestic politics — fear of the rabidly anti-Castro Cuban lobby, particularly in the electorally influential states of Florida and New Jersey.

It is easy to compare this policy sarcastically with America's "constructive engagement" with Communist China, and to suggest that this inconsistency is the dissonance of a big power for a much smaller one.

There is no longer much question about whether Mr. Castro, who just turned 72, will disappear fairly soon and whether his regime will disappear with him. The questions are when and how.

In a normal course of events, internal evolutionary pressures would produce some kind of "velvet revolution," as happened in Eastern Europe, and the successor regime would be drawn from critical groups inside Cuba.

This kind of peaceful, homegrown transition would clearly be in the best interests of Cubans, and of the United States as well.

But there are grounds to suspect that this is just what the exile lobby does not want, since

it would almost surely preclude its members' return to power on the island. A change involving violence, drawing in the United States, would better suit the exile lobby's ambitions.

That is all the more reason why the United States should change its policy now, cancel the embargo and encourage contacts with the Cuban population. That would have a lot of influence in helping Cuba find its way to democracy and regional integration.

Further, there is considerable evidence that the U.S. electorate, including quite a lot of Cuban immigrants, would greet the change with relief, as Americans did when President Richard Nixon finally reopened exchanges with China. The Cuban lobby still has a lot of bark but not much political bite.

Then why doesn't Washington end the embargo? Two reasons. One is inertia, the awful time it takes for political myth to catch up with reality. The other can be called Monica Lewinsky, a beleaguered president feeling unable to take this bold initiative. But the sooner the policy is changed the better.

Flora Lewis.

Asian Crisis Provides an Opening to Tackle Corruption

By Robert G. Lees

HONOLULU —

If there is a silver lining to the dark clouds of Asia's financial crisis it might well turn out to be an invigorated commitment to fighting corruption. The intensity of hardship caused by the crisis seems to have reduced the level of tolerance for the economic costs and inefficiencies imposed by graft.

Most diagnoses of the crisis point to corruption as a primary culprit and to its eradication as a key remedy.

Corruption is an insidious virus that infects, to varying degrees, every nation in the world. It eats away at the structural foundations of economies, creating a honeycomb of added costs throughout the entire business environment.

When the outcomes of business transactions are being determined by bribery, influence-peddling and favoritism, rather than by sound business decisions and market forces, the entire economy pays a price.

Corruption exacts a heavy penalty on every segment of society — laborer and business owner, public official and private citizen. It acts very much like a tax on public projects, adding, according to some

estimates, as much as 30 percent to the cost.

The Asian Development Bank has calculated that corruption can cost governments as much as 50 percent of their tax revenues and can amount to more than a country's total foreign debt.

Given the precarious fiscal position of many governments in Asia, such huge added costs are unacceptable. Economies can only, and will only, fulfill their potential when openness and transparency are paramount.

Corruption has an ugly by-product. Where it is tolerated, or — worse — encouraged, human rights abuses seem to thrive as well. Such societies are plagued by secrecy, manipulation and outright lying. Cynicism flourishes, public trust evaporates and fundamental rights are all too frequently ignored.

At a time when foreign investment is more critical than ever for Asia, the malign influence of graft can kill any venture before it gets off the ground. It can poison the investment climate for years to come — just ask any business person who has been victimized by corruption.

The senior corporate executives represented in the Pacific Basin Economic Council recently adopted a charter on standards for transactions between business and government. It aims to eliminate corruption from all transactions by promoting integrity, transparency and accountability in transactions between companies and public bodies.

Its provisions cover, among other things, respect for laws and standards, prohibition of improper inducements, financial recording and auditing responsibilities and political contributions.

The council also called on governments to redouble their efforts to ensure complete integrity, transparency and accountability in all business-government transactions.

By upgrading its previous statement on transparency to the status of charter, the council

has re-emphasized what it believes is the strong link between good governance and economic growth and the need for prompt and effective action.

The U.S. government and many other governments around the Pacific region seem eager to work with business in the battle against corruption. This type of partnership is essential if the scourge of corruption is to be effectively attacked. Neither side can do it alone.

Many other prominent organizations are also active in the fight. The Organization for Economic Cooperation and Development has ratified its Convention on Combating Bribery of Foreign Public Officials. The Pacific Basin Economic Council has urged all governments in the region to sign, ratify and implement this agreement as early as possible.

The Asian Development Bank recently approved an anti-corruption policy aimed at reducing the enormous costs that systematic, widespread corruption inflict on economies in the Asia-Pacific region. The Orga-

nization of American States is also active, concluding the Inter-American Convention Against Corruption.

Business leaders must campaign for an Asia-Pacific culture in which it is impossible for corruption to exist. Partly as a result of the Asian financial crisis, the chances of achieving a regional consensus on this are improving. There is now a widespread and growing recognition, both in government and private industry, that the costs of corruption are intolerable and that firm action must be taken.

The crisis can act as a catalyst for business and government to agree on measures to end corruption. If we succeed the region will have taken a major step toward restoring growth, stability and prosperity.

The writer is secretary-general of the Pacific Basin Economic Council, an association of senior business leaders representing more than 1,100 companies in 20 nations. He contributed this column to the International Herald Tribune.

IN OUR PAGES: 100, 75 AND 50 YEARS AGO

1898: Vague Protocol

MADRID — Much anxiety is felt with regard to the Philippines. Very little guidance is afforded by the ambiguously vague terms employed in the Protocol. The words have been carefully examined with the aid of all available dictionaries, not only by Spanish Ministers but also by diplomatic representatives of several foreign Powers, and all seem agreed that, in drafting this part of the Protocol, President McKinley's aim was simply to keep a free hand for himself until he had time to collect information and decide what policy the United States should adopt in the Far East.

1923: U.S. Isolation

WASHINGTON — President Coolidge is convinced that the American policy of isolation regarding Europe is right. Observers in Europe have convinced

the President that nothing is happening there to justify a change in the policy maintained by President Harding. President Coolidge is anxious to see a solution of the European problem and he believes that the settlement of reparations is necessary first of all. Furthermore it is indicated that America would be responsive to an appeal from abroad if made honestly.

1948: Berlin Tensions

BERLIN — American military policemen took up positions opposite Russian soldiers and key points between the Soviet and United States sectors of Berlin after the Russians again penetrated the west sectors to kidnap three people and manhandle a German and Allied nationals. Lieutenant Colonel Kelly, chief of the American military police, said the American border patrols would stay on duty "until the situation cools down."

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Mtg. Die Asia, Terry Danner, #1201, 191 Jooi Road, Hong Kong, Tel. 852-2922-1188, Fax: 852-2922-1190
Gen. Mgr. Germany: T. Schöber, Friedrichstr. 15, 10523 Frankfurt, Tel. +49 69 971250-0, Fax: +49 69 971250-20
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ATTRACTIVE English woman, currently based in South of France, loves life, is intelligent, meeting people, good conversation, and a very good sense of humor. She is a very successful entrepreneur and has a very good business. She is a very successful entrepreneur and has a very good business. She is a very successful entrepreneur and has a very good business.

ELISA, 35, smiling, beautiful blonde hair, green eyes, beautiful personality, intelligent, sophisticated, very friendly and easy, and so much more. She is looking for a man who is successful, intelligent, and has a good sense of humor. She is a very successful entrepreneur and has a very good business. She is a very successful entrepreneur and has a very good business. She is a very successful entrepreneur and has a very good business.

CHIEF EXECUTIVE OFFICER, 40 years old, blonde, beautiful, charming, with style and class, very elegant, sportive, cosmopolitan, intelligent, sophisticated, very friendly and easy, and so much more. She is looking for a man who is successful, intelligent, and has a good sense of humor. She is a very successful entrepreneur and has a very good business. She is a very successful entrepreneur and has a very good business. She is a very successful entrepreneur and has a very good business.

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ART

Glimpses of Stuart Britain in Prints

By Souren Melikian
International Herald Tribune

LONDON — The art may not be great, but as a key to the understanding of British cultural history, few shows beat "The Print in Stuart Britain, 1603-1689" at the British Museum until Sept. 20.

The subject had never been dealt with, not even in book form. Eager to fill the lacuna, Antony Griffiths, keeper of the department of prints and drawings, has done it in 155,000 words. It is not light reading and yet it is gripping.

Once he gets into it, the reader pushes open the door of this London art world of the 17th century in which little was English. He is made privy to the schemes of the high-and-mighty, complete with financial scandals and mistresses in high places doubling up as agents for a foreign power. So, what's new? Well, the illustrations are. More than 90 percent of the 214 prints, which should really be seen after reading the book, have never been displayed.

These might never have seen the light of day had the Spaniards not invaded the Southern Netherlands in 1567, sending borders of Protestants fleeing to Britain. Thus it was that Marcus Gheeraerts the Elder of Bruges came to illustrate the Dutch and French editions of a Dutch book, "Het Theatre," with the first etchings published in England in 1568.

By the time James I ascended the throne in 1603, the entire publishing business was dominated by Netherlands émigrés. It was the publisher Hans Woutaert, a refugee from Antwerp who sent to a fellow Flemish refugee in Cologne, his friend Crispin de Passe the Elder, a portrait of the defunct Queen Elizabeth drawn in pen and brown ink by Isaac Oliver to be engraved. And when the need for an engraved portrait of James I was felt, the publisher turned to another émigré, Francis Delarue.

Indeed, foreign artists were called in from all over Europe. The Earl of Arundel, while on an embassy in the German Empire in 1636, met Vaclav Hollar — Wenzel to the Germans; Wenceslaus in England — who had been forced to leave Prague in 1627 for Frankfurt, where he had become a full-fledged German school engraver. Hollar accompanied him on his journey home.

Within months of his arrival, Hollar produced one of the gems in the show, "The Long Greenwich View." The landscape unfolds with a suggestion of immensity under the light clouds. It is as poetic as it is topographically accurate. Some of his commercial prints were bolder. "Sunshine," dated 1644, is seen as a woman walking, fan in hand, as if gliding sideways, against the backdrop of a low landscape — St. James's Park, with the Banqueting

Hall built by Inigo Jones only just visible. A poem underneath was meant to sound wildly erotic:

How Phoebus [the sun], crowns our
Summer days
With stronger heat and brighter
rays

Her lovely neck and breast are bare
While her fann doth coole the ayre.

Tastes change. Francis Clein, a German artist from Rostock on the Baltic Sea, was employed by Christian IV of Denmark to execute decorative paintings in the castle of Rosenborg when he visited London in 1623. Clein so impressed James I that he pressed his brother-in-law Christian IV to allow Clein to go to London.

On his second visit, two years later, Clein was naturalized and received a huge life pension. He executed the tapestry designs for the new factory at Mortlake, the king's great artistic undertaking, and he produced etchings. His contemporaries raved about them. To the modern eye they look conventional, not to say stilted, however skillful his technique, praised by Griffiths, may be.

THE work of the Frenchman Isaac de Caus has greater charm. He too was a big hit.

By 1634 he had become a subject of His Majesty, Inigo Jones, with whom he frequently collaborated, recommended him to the Earl of Pembroke for the face-lifting of the south front of Wilton House and the garden layout. Pembroke was so enthusiastic that he gave de Caus a pension and lodgings in his house. "Hortus Penbrachianus," engraved by de Caus, half bird's-eye view and half garden map, has a light-hearted, falsely naive charm that is irresistible.

At intervals, there was more to the work of immigrants from continental Europe than just charm. "Prince Rupert" (Ruprecht of Pfalz) was the son of Elizabeth, sister of Charles I, and Frederik of Bohemia. While a young exile in the Netherlands, he mastered the art of etching, and, possibly in Brussels, he was initiated into the secret of the mezzotint, a technique invented in 1642 by a German soldier, Ludwig von Siegen, who did not exploit it.

"The Little Executioner," the portrait of a man dated 1662, inspired by a portrait then believed to be by Ribera, is a dramatic close-up of a man's head bending forward. It ranks among the great masterpieces of 17th-century mezzotint.

Prince Rupert, a passionate experimenter and inventor, improved the technique and passed it on as a secret to be jealously kept, to a few fellow members of the Royal Society. A decade later, the secret was widely known. Mezzotint portraiture, with its rich, smooth texture, became the rage in Britain. Royal mistresses were portrayed in this medium to satisfy the



A print by Vaclav Hollar titled "Summer" and dated 1644.

ghoulish curiosity of the public.

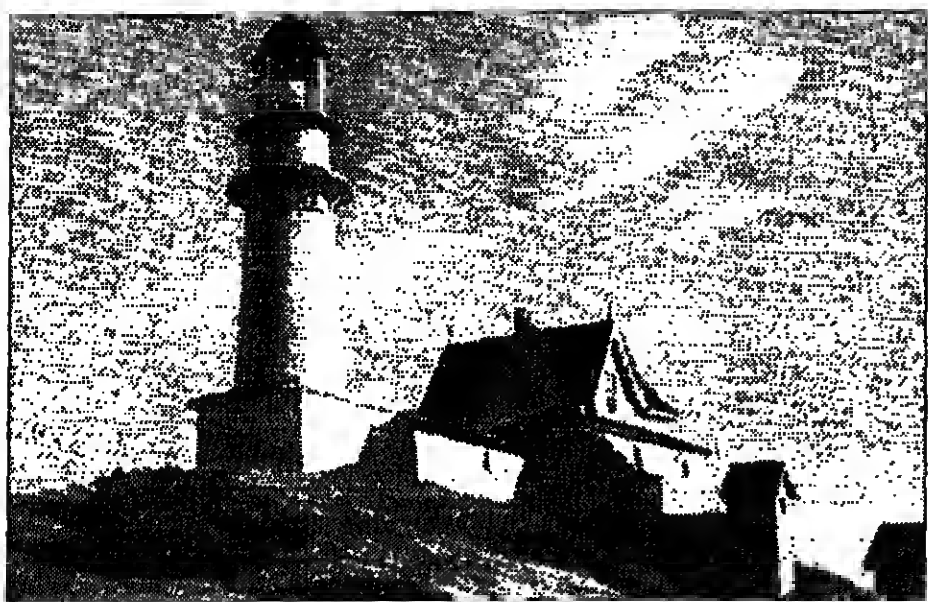
Hortense Mancini, the niece of Cardinal Mazarin of France who had been granted the title "Duchess of Mazarin" by Louis XIV, was one of them. Having married the Duc de Meilleraye, she left him after a flaming dispute and came to London where she promptly proceeded to outdistance the mistress-in-residence, the Duchess of Portsmouth. Imprudently embroiled in an intrigue, Hortense was nimble enough to persuade her royal lover to let her have a £4,000 yearly pension. That allowed her to live luxuriously in her Chelsea house assiduously visited by those with claims to wit or an elegant lifestyle.

The Dutchman Gerard Valk engraved a likeness of her, blandly conventional. A Junoesque woman, her head diffidently averted, turns her eyes to look at the viewer with her hand pressed against her bosom, as if to prevent her drapes from coming down. The Duchess of Portsmouth, her fierce rival, had come to London as Louise de Keroualle. She must have had precise plans in mind, for she took along the

painter and engraver Henri Gascar. Closely associated with the Catholic party at court via the duchess, Gascar enjoyed enormous success. He portrayed her in mezzotint, but that engraving cannot have been much in demand. She was loathed for being Catholic and accused by the whispering brigade of being an agent of Louis XIV. Luckily the duchess was a tough nut. She not only saw her rival out of court, but she maintained her position right until Charles's death.

In Gascar's portrait, she is nonchalantly reclining, her chubby poked face giving nothing away. Uninspired as it may be, this is a portrait one does not easily forget. Voltaire, who met her in her old age (she returned to France in 1688), assures us that she was still very beautiful.

There are many more likenesses of these curious international specimens of humanity that scrambled up the greasy pike at the London court. Usefully supplemented by Griffiths's notices, they deserve a close study. There is nothing like the past to enlighten you about the present.



Two Lights Lighthouse, as immortalized by Edward Hopper, in Cape Elizabeth, Maine.

A Hopper Icon at Risk
Major Changes Slated for LighthouseBy Judith H. Dobrynski
New York Times Service

CAPE ELIZABETH, Maine — Even on a warm, sunny August day, the view of Two Lights Lighthouse here is, well, Hopperesque. Scenic but somehow forlorn, frozen in a long-ago time, the lighthouse evokes the sense of isolation inherent in so many classic Edward Hopper paintings. Little wonder that "Lighthouse at Two Lights," which hangs in the Metropolitan Museum of Art and is one of three major paintings and several watercolors he made of the scene, was made into a popular museum poster and is pictured on the 1970 6-cent postage stamp marking Maine's sesquicentennial as a state.

"Two Lights was a symbol of the solitary individual that faced isolation in the industrial world," says Barbara Haskell, a curator at the Whitney Museum of American Art, which owns two of the watercolors (and the Hopper estate). "It was also symbolic of the vulnerability of that way of life."

Hopper was indeed prophetic. The Coast Guard automated the beacon at Two Lights years ago and, some 70 years after Hopper painted a scene that became an icon of American art, the white, gingerbread-trimmed keeper's cottage in it is facing a big change. The owner plans to expand the house by about a third and add a two-car garage. Neighbors are horrified.

Workers are scheduled to begin demolishing part of the cottage, which was built in 1873, on Sept. 8 and there is little anyone can do legally to stop the owner, William J. Kourakas Jr., a hometown boy who now works on Wall Street, lives in Greenwich, Connecticut, and uses the house as a year-round retreat.

Kourakas, who bought the keeper's quarters in 1995, declined to comment for publication, but he has told neighbors that the house has already been altered and is no longer what Hopper painted.

"The people around here are up in arms," said John Rich Jr., a retired journalist whose front yard looks out on the view in the Met's painting and who, as a 10-year-old, witnessed Hopper painting it.

Town residents are rueful, at least partly because their lack of power is their own fault. When the town council of Cape Elizabeth, a hamlet near Portland, considered safeguarding historic buildings in recent years, it sided with private property rights over mandated preservation. An ordinance passed last year simply requires anyone embarking on demolition or construction of a landmark to give

45 days' notice to the town and to the Maine Historic Preservation Commission.

"That does my hands," said Michael K. McGovern, the town manager. On Aug. 13, about 40 citizens gathered at the town hall and decided to fight. Afterward, Thomas M. Egan, an insurance agent who is becoming a de facto leader vowed: "We'll do whatever we must do to stop him." The group sent a delegation to plead the preservationists' case with Kourakas on Friday, but he was unmoved.

"He said there would be no change in his plans and no delay, which means there's going to be a fight," Rich said.

Kourakas, the 43-year-old head of Morgan Stanley's high-yield capital markets group, has told neighbors that he is not the villain here. Over the years, the farmland surrounding the keeper's house was graded and turned into housing lots, the assistant keeper's house that figures in some paintings was destroyed and the keeper's house was renovated and expanded somewhat. His plan, he argued, reverses some alterations, restores some gingerbread and puts part of the roof line back where it was in Hopper's day.

KOURAKAS'S blueprints, however, also extend one side of the building 12 feet (3.5 meters), add 16 feet to another side, turn a three-bedroom house into a six-bedroom one and install a garage with a connecting walkway to the house.

Gail Levin, the author of eight books on Hopper, agreed. "It's a shame he is altering this major historic landmark," she said of Kourakas. To Hopper, she said, there was "something quintessentially American" about lighthouses, especially this one.

Two Lights also marked something of a turning point in the artist's career. As Levin writes in "Edward Hopper: An Intimate Biography" (Knopf, 1995/University of California Press, 1998), Hopper and his wife, Jo, discovered Two Lights in 1927. Hopper had just sold "Two on the Aisle," which shows a pair of elegant women in a near-empty theater and is in the Toledo Museum of Art, for \$1,500, his highest price thus far. The couple used the money to buy their first car and set out from Nyack, New York, for Maine.

At Two Lights, he painted "Lighthouse Hill," an oil in the Dallas Museum of Art, and "Captain Upton's House," an oil owned by the actor Steve Martin. Hopper also painted other parts of the Coast Guard complex at Two Lights, and he returned in 1929 to paint the view that the Met purchased in 1962.

The Tempest Over Gehry-on-Hudson

By Tracie Rozhon
New York Times Service

ANNANDALE-ON-HUDSON, N.Y. — Bard College, a small liberal arts school on 550 acres here, wants to build a knock-your-socks-off building, a sculptural shell for music, drama and dance.

Designed by Frank Gehry, who is basking in the triumph of his Guggenheim Museum in Bilbao, Spain, the \$24 million Bard Performing Arts Center would have some of the same sweeping silvery roofs, some of the same draftsman-defying curves as its Spanish sibling under the skin — and some crinkles thrown in.

To townspeople, preservationists and Bard's resident alike, the center might well be another of Gehry's coups, a mecca for architectural pilgrims and lovers of the performing arts.

There is only one problem. A lot of people think it's in the wrong spot.

Right now, the structure is designed to nestle in a ravine next to another of Bard's performing arts buildings. The site is 305 feet from the Saw Kill creek, across from land owned by Montgomery Place, whose mansion and grounds are listed on the National Register of Historic Places and are seen by 30,000 visitors a year. While the new center would not obstruct Montgomery Place's view of the Hudson, it would look out over a pristine, backwoods lake and dam rhapsodized by A.J. Downing, one of the most famous of 19th-century romantic landscapers.

Opponents are worried that the 105-foot stainless steel, glass and concrete building will be seen above and through the trees from the mansion's numerous trails — and Lucy Kuriger, director of Montgomery

Place, fears it might even be visible from the columned porch of the 1804 classical revival house itself.

"It needs to be moved back," said Richard Jenrette, the financier, house restorer and neighbor. He is joined in his concern by other preservationists and environmentalists. The State Parks Department "strongly recommends" that the center be moved somewhere else — or be reduced in height. The National Park Service worries that the construction will pose "a threat" to the historic district, according to letters to the planning board.

In his own letter, Jenrette said the siting of the proposed building "seems almost vindictive." At the end of his letter, he asked, "If the proposed Frank Gehry structure is going to be beautiful, why not stick it in a place where Bard can enjoy all sides?"

Initially, even Gehry asked the same question of Bard's determined pres-

ident, Leon Botstein. "I argued with him a lot," Gehry said. "Your first take is: when you have this beautiful building, why put it down there?" But in the end, Gehry was convinced by the arguments of Botstein. "He's vehement: He's not building it just to build an edifice, for fluff," he said. The new center, Gehry said, must be "part of the teaching experience" and relate to the two adjacent arts buildings, which will become part of what Botstein sees as the campus arts complex.

The building has to be massive, Gehry added, because it must work for orchestra, opera, theater and dance. It must be almost 100 feet high because of the flies — the area above the stage that holds the scenery.

On Aug. 3, Bard volunteered to submit an environmental impact statement by Oct. 1. Officially, everyone is waiting — although Botstein vows to start construction in the spring.

BOOKS

THE SILVER CASTLE

By Clive James. 263 pages.
\$23. Random House.Reviewed by
Michiko Kakutani

CLIVE JAMES'S last novel, "The Man From Japan," was amusing, energetic and oddly affecting. His new novel, "The Silver Castle," is amusing, energetic and oddly condescending. It aspires to be a kind of "Candide" set in contemporary India. It reads more like a comic book, penned with a self-satisfied sneer.

The plot of "The Silver Castle" not only takes its cue from hundreds of earlier bildungsromans, but also specifically recalls "The Man From Japan" and James's own 1981 autobiography, "Unreliable Memoirs." Once again we are introduced to a poor young man equipped only with some pluck and good luck. And once again we

are meant to follow this young man as he meets a curious assortment of strangers who will introduce him to an exotic new world and lead him into a series of improbable, picaresque adventures.

When we first meet James's hero, Sanjay, he's a penniless pavement dweller living in the mean streets of Bombay. He has a cruel, drunken father; a sad, prematurely aged mother; innumerable brothers and sisters, and an improvised home made of rags, hags and dirt. To Sanjay, a taste of Thumbs Up, a kind of local cola, is an amazing treat; a blanket, an almost unimaginable luxury.

As a young boy, Sanjay has caught a glimpse of the Silver Castle, a Bombay movie studio that cranks out dozens of melodramas and action films, and that glimpse of a magical land of make-believe will fuel his secret dreams. He becomes an ardent reader of movie magazines and hopes his own acting skills by practicing his charm (his "soulful look") in front of a mirror.

It's not long before Sanjay has left home to become a beggar and petty thief in downtown Bombay, and begun a series of liaisons with wealthy men and beautiful women that will eventually

bring him back to the Silver Castle as an extra and bit player. James sketches in the rigors of Sanjay's life on the streets with a smattering of telling details. The reader quickly learns about the pecking order among the beggars and gangs of Bombay, and the tricks employed by scam artists intent on ripping off gullible tourists.

Wealthy Indians and tourists in search of poverty chic are agilely skewered as well. "He reminds me of what my life was like before," says one movie star of Sanjay. "Simple. The life of the senses." Another friend, visiting Sanjay's home in the slums, exclaims: "This place does wonders for my nostalgia de la boue."

James also displays his customary narrative panache in extracting humor from Sanjay's bumbling efforts to get ahead by parroting movie dialogue and magazine captions to everyone he meets.

"Your sexiness triggers creation in the world," Sanjay tells a girl he likes, adding, "Life without you is like a cactus."

So much of the humor in "Silver Castle" comes at the expense of Sanjay, however, that the reader begins to suspect that James has some sort of grudge against his hero. He is constantly mocking Sanjay's difficulties with English and his snooty narrator — who is fond of using the royal "we" — has an annoying habit of interrupting the story with blasé, been-there-done-that asides that treat Sanjay as an ignorant buffoon.

As the novel progresses and Sanjay's fortunes rise — by the time he's gotten a few character parts as a tough guy, he is also romancing two of the Indian cinema's leading ladies — the narrator grows increasingly impatient, as though Sanjay were getting above himself; wanting too much, dreaming too fast, appreciating too little.

The unusual integrity of her personality remained a mystery to him," the narrator says of one of Sanjay's girlfriends, "because his own personality had no integrity of its own. It was fragmented, and so could never focus its appreciation."

The novel's brutal shock ending not only attests to James's determination to punish his hero for his hubris in wanting a better life, but also provides his narrator with an opportunity to moralize about the meaning of Sanjay's life and the lives of

others like him "stuck there at the fringe."

Such remarks suggest that James has as patronizing an attitude toward his hero as the oh-so-smug rich people he means to satirize in this funny, but very sour book.

New York Times Service

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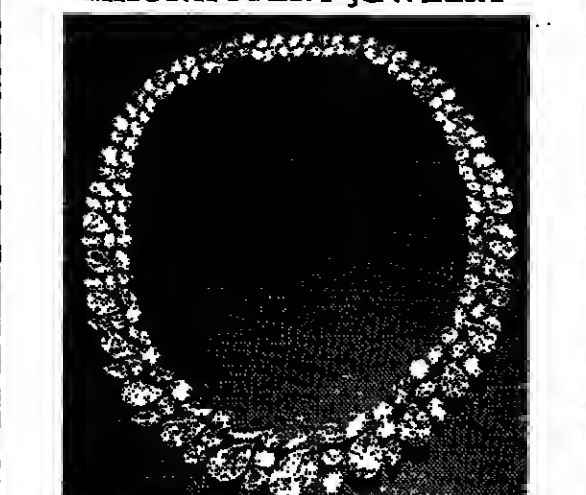
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Global Telecom Players Scramble to Connect

By John Schmid
International Herald Tribune

FRANKFURT — To the dismay of many of Europe's established telecommunications companies, a new wave of big-spending multinational clients has never been tougher.

Years after many of them created globe-spanning alliances selling one-stop shopping for voice and data services, big players such as Deutsche Telekom AG and France Telecom SA are still trying to find an international strategy that works, analysts argue.

Pressure on these alliances mounted again last month with the announcement that two of the world's biggest

and most respected operators — British Telecommunications PLC and AT&T Corp. — would merge their international operations into a global network with \$11 billion in annual revenues and 5,000 employees.

As a result, another global scramble for partnerships is unfolding. "The state of the alliances is volatile, and we expect that to continue for the next couple of years," said David Neil, an analyst at Gartner Group Europe, a technology think tank based outside London.

In an industry that values size, the new venture qualifies as a leviathan. AT&T is the biggest long-distance carrier in the world's biggest market, and

BT is the biggest operator in Britain. "BT and AT&T have well established names for quality and innovation, and they will be a formidable force," said Victoria Granger, an analyst in London at Merrill Lynch.

The AT&T-BT team already has struck a potentially fatal blow to Unisource NV, a Netherlands-based consortium formed in 1992 between the Dutch, Swiss and Swedish national carriers.

To concentrate on its bold BT venture, AT&T abruptly withdrew from Unisource. For Unisource, that means a lost link to the vast U.S. market and termination of a critical operating unit, AT&T-Unisource Communication

Services, which is 40 percent held by AT&T.

The global reshuffling also has meant the effective disappearance of another once-touted rival alliance called Concert, a venture between BT and MCI Communications Corp. of the United States.

WorldCom Inc. of the United States left the future of Concert in limbo in November when it announced a surprise acquisition of MCI. Under the new arrangement, BT will buy MCI's stake in Concert and fold Concert into its arrangement with AT&T.

At loss-making Global One, the al-

See TELECOM, Page 13

Hyundai Employees Abandon Hard Line

Union Accepts Seoul Plan for Some Layoffs

By Don Kirk
International Herald Tribune

ULSAN, South Korea — Hyundai Motor Co.'s labor union on Friday accepted a government proposal to allow layoffs of up to 300 workers and one-year partially paid furloughs for another 1,238 workers in an effort to end the strike that has halted production here since July 13.

After the agreement was reached, the government team announced that there now was "no cause to send in the police" to drive out several thousand striking workers who have held the facility for a month, signaling that the strike might end peacefully.

But the company immediately rejected the proposal.

"We cannot agree to the politicians' recommendation," said Kim Pan-Kun, a managing director. The company's "last proposal," he said, was for layoffs of 400 people and non-paid furloughs.

Chung Mong Gyu, Hyundai Motor chairman and member of the family that owns the Hyundai group, Korea's largest chaebol, or conglomerate, charged that negotiators were "favoring the labor union."

Hyundai officials said the government had abandoned its responsibility.

"It's the government's role to maintain the law," said Shin Hyun Kyu, chief spokesman for the company. "This country is ruled by law."

In a case watched by hundreds of Korean companies facing the need for layoffs, the government team gave the impression it was prepared to pressure

Hyundai into agreement.

"There are no longer three-way negotiations," said Nho Moo Hym, a national assembly member dispatched by President Kim Dae Jung to negotiate a settlement after all other efforts had failed. "Government-labor negotiations do not exist. Now there are just government and company negotiations."

Mr. Nho said that because the strikers had agreed on a compromise, they were no longer to blame for stopping production.

The government team switched to the workers' side after Kim Kwon Sik, the president of the union, relented on his adamant refusal to agree to layoffs. Mr. Kim said he would accept layoffs of 250 to 300 workers and one-year furloughs for another 1,238 workers, whom the government, the union and the company would pay for six months.

The stance of the government team alarmed business leaders.

"It is not fair," said Cho Nam Ho, president of the Korean Business Leaders Association, made up of executives of companies. He called on the government to "handle fairly the illegal strike."

Bae le Dong, senior managing director of the Federation of Korean Industries, a kind of club of owners of Korea's conglomerates, viewed the terms of settlement of the Hyundai strike as "a very important indication of which actions can be taken by other business firms."

He called on negotiators to "accept the principle of layoffs," as demanded by the International Monetary Fund in arranging a rescue package of nearly \$60 billion in loans last December. Hyundai Motor, which employed 46,000 people before letting about 8,000 of them go with "voluntary retirement" packages and furloughs, is the first major company to attempt to lay off workers.

"This may be a test case of whether other chaebol can lay off anyone or not," said Yoo Tae Ho, executive managing director of the Daewoo Research Economic Institute, an arm of the Daewoo group, which also manufactures motor vehicles.

"The government is saying that layoffs are inevitable," said Mr. Yoo, "but the problem is the size of layoffs will have a great impact on the economy."



A boy whose headband says "Save Our Jobs" touring the test city at the Hyundai plant Friday.

Tokyo Set to Revamp Ailing Bank

By Stephanie Strom
New York Times Service

TOKYO — Long-Term Credit Bank of Japan Ltd., which has become an unfortunate symbol of the problems of Japan's banking system and the government's inability to act swiftly to fix them, announced a restructuring Friday that will pave the way for an injection of public funds and an eventual merger with the Sumitomo Trust & Banking Co.

The restructuring was an incontrovertible sign that the government is hoping to stem the battered Japanese financial system to a "soft" landing, rather than the swift, relentless overhaul many foreign investors long for.

Its ability to pull off a gentle resolution to the massive banking system crisis, however, may be challenged by those foreign investors, who have already harshly punished Japan's banks.

"If it is to have any credibility, the Japanese government must demonstrate that it is going to allow the market to determine final outcomes, and if those outcomes suggest losses, it can manage them," said Alicia Ogawa, banking analyst and head of research at Salomon Smith Barney Inc. in Tokyo.

"But what they seem to be demonstrating is that they are trying to build a wall around the market, and that is just not going to work," she said.

Prime Minister Keizo Obuchi, Finance Minister Kiichi Miyazawa, and

numerous other government officials on Friday revealed the government's intention to shore up Long-Term Credit Bank with an infusion of public funds.

The government started laying the groundwork for a taxpayer rescue of the bank earlier this week, when Mr. Miyazawa and other officials testified in Parliament that to allow any of Japan's 19 largest banks to fail would be courting worldwide financial chaos.

The rescue operation announced Friday dulled the potential effect of the government's much-discussed "bridge bank" plan for resolving the problems of failed banks while at the same time keeping credit lines open to worthwhile lenders.

The announcement made it clear that the "bridge bank" plan, currently under discussion in Parliament, will probably never be used to resolve the troubles of the country's 19 largest banks.

It also echoed out no plan for Long-Term Credit's future beyond a merger with Sumitomo Trust.

In exchange for government assistance, Long-Term Credit intends to write off 700 billion yen (\$4.9 billion) in bad debts, including some 500 million yen in loans to three of its most beleaguered nonbank affiliates: Japan Leasing Corp., Japan Land Corp. and Nippon Enterprise Development Co.

Japan Leasing, which has some 1.9 trillion yen in bad debt, according to Nihon Keizai Shimbun, Japan's business daily newspaper, will be ordered to

stop financing businesses.

Dozens of other affiliates to which the bank has transferred portions of its non-performing loans in an effort to clean up its own balance sheet will be liquidated, and its president, Kazumasa Onogi, and two other senior executives will resign to take responsibility for the bank's dire straits.

A planned reduction of 700 jobs will be accelerated, and managers and others will see their pay cut.

The restructuring will pave the way for the government's Deposit Insurance Corp. to provide assistance to the tune of as much as 800 billion yen — and perhaps more, according to analysts, who note that the government often provides further assistance in the form of tax breaks designed to avoid provoking public outcry.

The Bank of Japan is also expected to keep the struggling bank afloat with uncollateralized loans to support its day-to-day funding operations in the event that other Japanese and foreign banks move to limit their exposure.

Long-Term Credit will withdraw from all overseas operations, which will be assumed by Sumitomo Trust, and it will try to sell its head office building in Tokyo.

All of that, analysts say, may only begin to repair the hole in the bank's balance sheet caused by bad loans. The bank's official figure is 690 billion yen for the amount of bad loans against which it does not have reserves.

Korean Firm Touts Washer That Cleans Without Detergent

Agence France-Presse

SEOUL — A South Korean venture capital company claimed Friday that it had developed the world's first detergent-free washing machine, which it said would greatly help reduce water pollution.

Kyungwon Life and Science Research Institute developed the new laundry system by applying its own water-purifying technology, said a spokesman for ShinDongBang Corp., which has the right to market the product.

The system changes the nature of water by using layers of special catalysts planted between electrodes, which give water detergent-like qualities without causing pollution, said Kim Hee Jung, who leads the research institute.

The invention cost ShinDongBang 5 billion won (\$3.8 million) over the past seven years, the spokesman said. The new laundry machines will come on the market early next year.

The machine uses less water and energy than traditional laundry machines because it does not need a rinse cycle.

Tests of the machine by technicians from South Korea's giant Daewoo Electronics Co. produced satisfactory results, news reports here said.



The shift is subtle, but fashion advertising is trying to add a little realism.

MEDIA MARKETS

Fashion Retailers Get a Dose of Reality

Advertisers Seek Real People and Their Babies in Highlighting Lifestyle

By Jennifer Steinhauer
New York Times Service

NEW YORK — Flip through the September issues of the fashion magazines in America, and there appears to be a subtle shift in the sensibility of fashion advertisers this autumn. Fashion advertising has traditionally depended on images of fantasy. But now there are signs that fashion is trying to add a little realism.

Here are a few little trends noted in advertisements in the September issues of Elle, Marie Claire and Vogue:

● **REAL PEOPLE:** This season, real women populate the ads. Anne Klein's campaign features a dancer, a venture capitalist, a radiologist and a mother among other women who do not model professionally. The autumn Dockers campaign for Levi Strauss & Co. relies on women in film, like the actress Rosie Perez, and an advertisement for Timex watches features the faces of three sisters.

Donna Karan's autumn campaign uses professional models, but one of them is older than 40 and no longer works regularly.

The press release for Calvin Klein's new ad for a men's fragrance boasts that the model is a father of three and hints that the fact he is drop-dead gorgeous and pitches in at home makes him, to use

Mr. Klein's favorite buzzword, very "modern."

Mr. Klein pioneered the reality effect with his earlier advertisements, which featured unscrubbed, anti-model models.

"When you put model, a fantasy and fashion all together, it can get to be too overpowering," said Tom Julian, a trend analyst for Fallon McElligott's New York office.

"The fashion industry has started to realize that if you make fashion acceptable on all levels, you get more people to buy it."

● **BLACK AND WHITE ALL OVER:** There are so many black-and-white advertisements in the autumn magazines that they almost resemble newspapers. In the 568 pages of Elle, 26 fashion houses use black-and-white photography for their campaigns, or nearly half the fashion ads. From Calvin Klein to Halston to Gucci to Eileen Fisher, the color of newsprint is found throughout.

True, autumn's palette — grays, dark greens and beige — lends itself to black and white. But many of these ads resemble a documentary.

"Black and white does seem to be the color of the moment in fashion ads," said Donny Deutsch, chairman and chief executive of Deutsch Inc. in New York. "Black and white stands for reality,

which is ironic because life of course is not in black and white."

● **BABY AS ACCESSORY:** This season it seems that babies are as important as the right handbag.

Elle, Vogue and Marie Claire all feature cute babies in their fashion editorial pages, egged on, it seems, by Isaac Mizrahi, who recently featured rain slickers and evening gowns with matching baby carriers in his collection.

Matin Hopper, Elle's fashion director, said her magazine's decision to run an entire photo feature titled "Insouciant au Pair" was inspired by current fashion trends and baby adoration among her readers. "There was a feeling this fall in fashion that was very school-girl-like, a fresh innocence, from pleated skirts to flat shoes," Ms. Hopper said.

Of course, there are only so many reality factors that a reader of fashion magazines can take.

A Bergdorf Goodman advertisement features a woman in a Guy Laroche dress and coat, walking a llama down a New York sidewalk.

"We wanted to position ourselves as a little less serious," said Michael Calman, a vice president at the New York department store, a unit of the Neiman Marcus Group. "We want to show we can appeal to a younger audience, and that is generally not how we are perceived."

CURRENCY & INTEREST RATES

Cross Rates									
	USD	EUR	GBP	JPY	AUD	NZD	HKD	TWD	THB
Australian	1.00	0.65	0.50	106.00	0.70	0.45	7.80	13.50	3.40
British	0.65	1.00	0.70	160.00	0.55	0.35	6.20	10.50	2.70
Canadian	0.70	0.45	0.35	125.00	0.50	0.30	5.50	9.50	2.40
French	0.15	1.00	0.75	165.00	0.60	0.40	7.00	12.00	3.10
German	0.63	1.00	0.73	163.00	0.58	0.38	6.10	10.30	2.60
Italian	0.14	0.65	0.50	135.00	0.45	0.30	5.00	8.50	2.20
Japanese	106.00	160.00	165.00	1.00	145.00	90.00	155.00	265.00	70.00
New Zealand	0.45	0.30	0.25	90.00	1.00	0.65	11.00	19.00	5.00
Portuguese	200.00	130.00	100.00	2100.00	150.00	100.00	1700.00	2900.00	750.00
Spanish	165.00	105.00	80.00	1750.00	130.00	85.00	1450.00	2450.00	650.00
Swedish	8.50	5.50	4.20	900.00	6.50	4.00	700.00	1200.00	310.00
Swiss	0.75	0.48	0.38	128.00	0.52	0.32	5.80	9.80	2.50
Taiwan	13.50	10.50	8.00	265.00	10.00	6.50	180.00	315.00	85.00
Thai	3.40	2.60	2.00	70.00	2.50	1.50	40.00	70.00	18.00
Turkish	0.03	0.02	0.01	3.40	0.02	0.01	0.05	0.09	0.02
US Dollar	1.00	0.63	0.48	106.00	0.70	0.45	7.80	13.50	3.40
Yen	106.00	160.00	165.00	1.00	145.00	90.00	155.00	265.00	70.00

Libid-Libor Rates									
	USD	EUR	GBP	JPY	AUD	NZD	HKD	TWD	THB
1-month	5.50	4.50	4.00	5.50	4.50	3.50	5.50	5.50	5.50
3-month	5.50	4.50	4.00	5.50	4.50	3.50	5.50	5.50	5.50
6-month	5.50	4.50	4.00	5.50	4.50	3.50	5.50	5.50	5.50
1-year	5.50	4.50	4.00	5.50	4.50	3.50	5.50	5.50	5.50

Key Money Rates									
	USD	EUR	GBP	JPY	AUD	NZD	HKD	TWD	THB
1-month	5.50	4.50	4.00	5.50	4.50	3.50	5.50	5.50	5.50
3-month	5.50	4.50	4.00	5.50	4.50	3.50	5.50	5.50	5.50
6-month	5.50	4.50	4.00	5.50	4.50	3.50	5.50	5.50	5.50
1-year	5.50	4.50	4.00	5.50	4.50	3.50	5.50	5.50	5.50

Nobel Winner Aims to Capitalize on DNA Niche

Bloomberg News
LA JOLLA, California — This is a story about an ocean-surfing Nobel laureate, an Iowa paving contractor, and a company named Questar International Inc., which has no products but thinks it can save lives.

The company, which plans to deep-freeze human genes, says it is facing an inquiry by the Securities and Exchange Commission into the movement of its stock price before a \$1.5 billion offer for 80 percent of its shares.

That bid came from Pax International Inc., a privately held Tokyo-based importer of survival blankets and water-purification straws. The company has net assets of less than \$1 million, according to a Japanese corporate information service.

Questar's leaders are enthusiastic about their prospects. "This company will be on the Fortune 500 list within a year, mark my words," said Don Washburn, 49, an asphalt and roofing contractor from Cedar Rapids, Iowa, who controls Questar with his business partner, Kary Mullis, winner of the 1993

Nobel prize for chemistry.

Questar's shares have fallen about 50 percent from the 52-week high they reached just before Pax's bid was announced in June, and they now trade at about \$1.50 — well below the \$20.97-a-share offer.

Questar is in the biotech business. The Hiawatha, Iowa-based company has a technique for extracting deoxyribonucleic acid, or DNA, the genetic building block of life, from the blood of healthy patients. Mr. Mullis, who patented the procedure, thinks that in 10 or 20 years, those samples could be used to treat the medical problems customers develop as they age.

Questar says it charges \$515 to isolate DNA from a customer's blood and freeze it at minus 120 degrees Fahrenheit (minus 84 degrees Centigrade), on the bet that science will eventually develop gene-based therapies for cancer, AIDS and other deadly diseases.

"It's not worth your life savings," said Mr. Mullis, a 53-year-old surfer from La Jolla, California. "But if it's only \$515, why not?"

Mr. Mullis and Mr. Washburn formed Histotec Inc. in 1995 to control the rights to two of Mr. Mullis's patents for DNA extraction.

Last year, Histotec licensed Mr. Mullis's patent rights to Questar in exchange for 60 million shares of Questar, now worth about \$100 million. That gave Histotec about 74 percent of Questar.

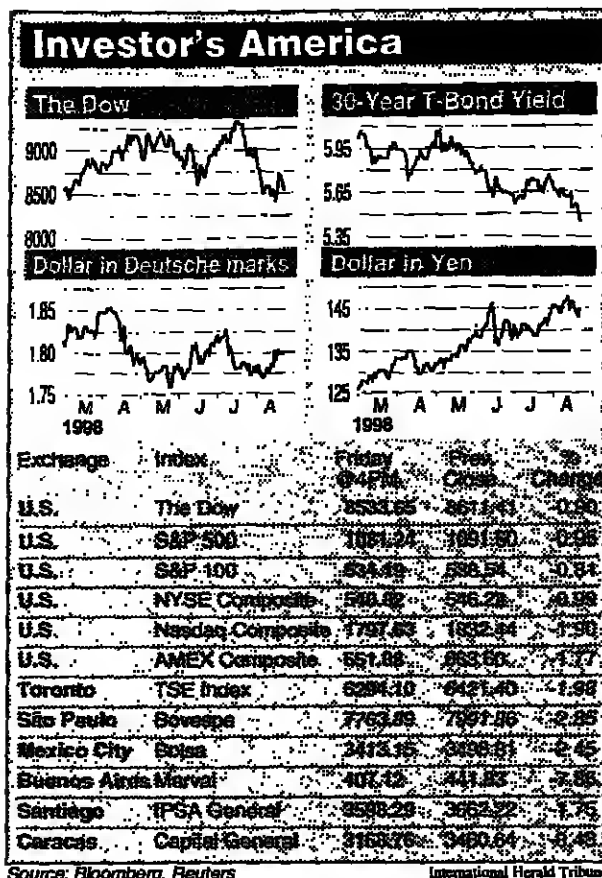
Questar announced June 7 that Pax International had offered \$20.97 per share for 80 percent of the company. That was six times the \$3.25 the shares fetched the day before Questar issued its press release.

Since then, Pax has neither explained how it will finance the offer nor filed any public documentation of its bid. And the stock, which peaked at \$5.50 on June 3, has not even come close to the offer price.

"It sounds like a fairy tale to me," said Phil Feigin, a former president of the North American Association of Securities Administrators and now Colorado's securities commissioner.

See QUESTAR, Page 13

THE AMERICAS



Very briefly:

- Smith International Inc., the seventh-largest U.S. oilfield service and equipment company, will buy the 36 percent of an oil-drilling fluids joint venture that it does not already own from Halliburton Co. for \$265 million.
- Oracle Corp. will acquire Versatility Inc., a software maker of telephone sales applications, for about \$12 million.
- Cisco Systems Inc., an Internet networking provider, will acquire privately held American Internet Corp. of Bedford, Massachusetts, for \$56 million in stock.
- Morgan Stanley Dean Witter & Co.'s Novus Services Inc. and US Audiotex have teamed up with the Internal Revenue Service to allow U.S. citizens to pay their federal taxes with credit cards for the first time next year.
- Circus Circus Enterprises Inc.'s second-quarter profit rose to \$25.3 million from \$24.5 million a year ago, exceeding expectations, as relocations at its properties drew more tourists.
- Argentina postponed indefinitely the sale of its remaining 20 percent stake in oil producer YPF SA after a plunge in the shares reduced the amount the government would obtain from such a sale.

Bloomberg, Reuters

The Trib Index

Prices as of 4:00 P.M. New York time.

	Jan. 1, 1992 = 100	Level	Change	% Change	Year to date % Change
World Index	184.13	-4.27	-2.27	+6.98	
Regional Indexes					
Asia/Pacific	74.49	-0.96	-1.27	-22.46	
Europe	219.38	-8.62	-3.78	+13.64	
N. America	249.70	-1.13	-0.45	+15.61	
S. America	97.05	-5.14	-5.03	-36.43	
Industrial Indexes					
Capital goods	252.42	-4.36	-1.70	+22.20	
Consumer goods	224.04	-3.08	-1.36	+6.82	
Energy	188.85	-3.51	-1.84	-4.16	
Finance	129.39	-4.68	-3.49	+5.23	
Miscellaneous	142.08	-5.04	-3.43	-5.20	
Raw Materials	167.39	-4.23	-2.46	+0.09	
Services	196.27	-5.33	-2.64	+12.60	
Utilities	149.36	-5.66	-3.65	-10.49	

The International Herald Tribune World Stock Index tracks the U.S. dollar value of 280 internationally investible stocks from 25 countries.

Compiled by Bloomberg News

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Friday's 4 P.M. Close

The 200 most traded stocks of the day, up to the closing on Wall Street.

The Associated Press

Stock	Sales	High	Low	Open	Close
IBM	1,028	126 1/4	125 3/4	125 3/4	126 1/4
Microsoft	1,028	126 1/4	125 3/4	125 3/4	126 1/4
Apple	1,028	126 1/4	125 3/4	125 3/4	126 1/4
Oracle	1,028	126 1/4	125 3/4	125 3/4	126 1/4
Amazon	1,028	126 1/4	125 3/4	125 3/4	126 1/4
Google	1,028	126 1/4	125 3/4	125 3/4	126 1/4
Yahoo	1,028	126 1/4	125 3/4	125 3/4	126 1/4
Alibaba	1,028	126 1/4	125 3/4	125 3/4	126 1/4
Facebook	1,028	126 1/4	125 3/4	125 3/4	126 1/4
Twitter	1,028	126 1/4	125 3/4	125 3/4	126 1/4
LinkedIn	1,028	126 1/4	125 3/4	125 3/4	126 1/4
Slack	1,028	126 1/4	125 3/4	125 3/4	126 1/4
Dropbox	1,028	126 1/4	125 3/4	125 3/4	126 1/4
Evernote	1,028	126 1/4	125 3/4	125 3/4	126 1/4
OneDrive	1,028	126 1/4	125 3/4	125 3/4	126 1/4
Box	1,028	126 1/4	125 3/4	125 3/4	126 1/4
Dropbox	1,028	126 1/4	125 3/4	125 3/4	126 1/4
Evernote	1,028	126 1/4	125 3/4	125 3/4	126 1/4
OneDrive	1,028	126 1/4	125 3/4	125 3/4	126 1/4
Box	1,028	126 1/4	125 3/4	125 3/4	126 1/4

AMP Board Turns Down AlliedSignal's Offer

Compiled by Our Staff From Dispatches

HARRISBURG, Pennsylvania — AMP Inc.'s board rejected AlliedSignal Inc.'s \$9.8 billion acquisition offer on Friday, saying it was inadequate and not in the company's best interest.

AMP also overhauled its top management, naming Robert Ripp, an executive vice president at AMP, as the electronic equipment maker's new chairman and chief executive.

AMP's chairman, James Marley, will retire, and the chief executive officer, William Hudson, will step down to become vice chairman of the board.

AMP's board was unanimous in rejecting AlliedSignal's tender offer of \$44.50 in cash per share for all of AMP's outstanding shares.

AMP shares were quoted \$1.375

lower at \$37.675 in late trading, while AlliedSignal had fallen \$2.50 to \$36.675.

In its recommendations to AMP shareholders, the board said AlliedSignal's offer "does not reflect the inherent value of AMP as the world's largest supplier of electrical and electronic connectors."

AMP also said its businesses were not compatible with AlliedSignal's chemicals, auto and aerospace parts operations.

The board said it was committed to revitalizing AMP and thought its stock price would increase significantly as it continues to restructure the company through closing plants, shedding divisions and eliminating about 3,500 jobs.

"The board is going to fight to remain independent," said William Milton, analyst at Brown

Brothers Harriman.

AMP said savings from the plant closings and job cuts should generate 11 percent operating margins in the fourth quarter, 13.5 percent next year and 16.5 percent in 2000. Earnings are expected to be \$2.30 per share in 1999 and \$3.00 per share in 2000, AMP said.

AlliedSignal is waiting for AMP to file its rejection with the Securities and Exchange Commission before it responds, an AlliedSignal spokesman said.

AMP had accused AlliedSignal this month of pressuring its 11-member board by urging shareholders to add 17 pro-AlliedSignal seats to the AMP board.

The board had been in the process of management succession for over a year. Mr. Hudson was due to retire soon. Mr. Marley was scheduled to retire midyear 1999, the company said.

Mr. Ripp, who joined AMP as its chief financial officer in 1994, is responsible for many of the company's profit-boosting efforts. He was named executive vice president in charge of AMP's global businesses this year. Before joining AMP, Mr. Ripp was vice president and treasurer of International Business Machines Corp.

AMP is the world's largest manufacturer of electrical, electronic, fiber-optic and wireless interconnection devices and systems. The company has 48,300 employees in 53 countries. Its sales reached \$5.7 billion in 1997.

AlliedSignal, with sales last year of \$14.5 billion, has 70,500 employees in 40 countries.

(AP, Bloomberg)

Yen Drops As Company Goes Under

Bloomberg News

NEW YORK — The dollar rose strongly against the yen Friday on signs that Japan's banking crisis is deepening.

Concerns about banks mounted after Okura & Co., a Tokyo-based trading company with strong links to Fuji Bank, said it was seeking protection from creditors in what would be the third-largest Japanese bankruptcy this year.

"Problems in Japan are bringing down the yen," said Rick Zander, a currency trader at Friedberg Commodity Management. "A large company was declared bankrupt, and there are still unresolved problems with bank debt."

The dollar was quoted at 4 P.M. at 144.775 yen, up from 143.125 yen on Thursday.

Meanwhile, concern dwindled that Japan would intervene in the market to support the yen, as a host of Japanese finance officials had threatened in recent days. The warren had knocked the dollar down about 3 percent since Aug. 11.

"They were very pointed in their intervention threats and they didn't come through," said Thomas Ben for Bank of Montreal. "They cried wolf."

The yen was also hurt as the troubled Long-Term Credit Bank of Japan said it would seek taxpayer money to help get its house in order before merging with Sumitomo Trust & Banking Co. Economists viewed the move as a sign the government would continue to protect ailing banks under the so-called convoy system, rather than take tougher measures, such as letting crippled banks fail.

"The old convoy system is alive and well if they're going to put public funds into" LTCB, said Jay Bryson, an international economist at First Union in Charlotte, North Carolina. "It's a negative for the yen."

Against other currencies, the dollar slipped to 1.7985 Deutsche marks from 1.7989 DM. It dropped to 6.0280 French francs from 6.0300, and to 1.5023 Swiss francs from 1.5058 francs. The pound rose to \$1.6357 from \$1.6310.

Analysts said they did not expect the dollar to slide too far against the mark as long as Russia's economic troubles deepened. Germany is Russia's largest lender.

MARKETS: Stocks Drop as Asian Problems Wash Up in Russia and Venezuela

Continued from Page 1

Smith Barney Inc., "a huge liquidation of positions following the Russian debacle on Monday. Basically what started it was prices of Russian assets got marked down really substantially."

Because many investors in emerging-market instruments borrow money to take their positions, Mr. Lachman said, lenders began demanding partial repayments as the value of Russian stocks and bonds tumbled. To meet these margin calls, investors began liquidating other holdings.

Venezuela was particularly hard hit because of fears it might devalue its currency. The United Press International quoted currency traders in New York, saying the Venezuelan central bank would allow the bolivar to float anywhere within its fluctuation band of 516 to 600 to the dollar, rather than devaluing the midpoint of 558. The bolivar, which was trading at 575 to the dollar, is vulnerable because the country depends on petroleum income for about half of its revenue and energy prices are weak, reflecting the slowing world economy.

In developed Western markets, the view is that "Asian and Russian trouble just won't go away," said Alan Ackerman, executive vice president at Falmstock & Co. "Many market watchers are talking about weakness in several emerging markets as leading to a domino-type effect. For now, that may be a bit overstated, but there is a growing negativity in the air and the flow of funds in the United States clearly is

moving toward the bond market."

The price of the benchmark 30-year Treasury bond rose 1 1/32 point Friday to close at 100 28/32, sending the yield down to a record low 5.45 percent. That compares with a 5.52 percent yield earlier this week and a 6.6 percent yield a year ago. European bond yields also declined, but interest rates shot up for emerging-market economies, Mr. Lachman said.

Last month, he said, borrowers in emerging markets had to pay about 5.75 percentage points more interest on five-year bonds than the U.S. Treasury. By Friday, that discrepancy had widened to 13.4 points, meaning that emerging-market borrowers had to pay interest rates in excess of 18.5 percent to attract investors. Such levels, Mr. Lachman said, were not justified by economic fundamentals in many of the countries.

These "exorbitant" interest rates will also force the countries to reduce their imports, putting downward pressure on the American economy, which has remained relatively healthy since the onset of the deflationary pressures last year.

Mr. Ackerman noted: "The U.S. economy continues to be attractive; inflation and interest rates remain low. There is, however, growing concern about currency devaluations elsewhere in the world and the real possibility that the Clinton-Lewinsky matter has in some ways devalued the U.S. presidency."

He added, "Weak government leadership has traditionally meant

weak markets."

Edward Yardeni, chief economist at Deutsche Bank in New York, predicted a bear market would persist past the turn of the millennium. Mr. Yardeni has been warning for months that the Year 2000 computer problem is likely to cause a global recession on its own.

"My problem is that I think the Asian problems are just a warm-up act for the Year 2000 problems," he said, adding that the combination of the two would result in a bear market that will last for several years.

"When bad news strikes that turns a bull market into a bearish one," he said, "the initial reaction of investors is to sell stocks, but then they go into denial mode. That's what happened last year, Asia did hit the market hard in October, but then there was a groundswell of belief that it didn't matter much."

Earlier this year, he noted, Wall Street rose to record highs. The Dow industrials are now about 10 percent below their record of 9,337.97 points, set July 17, but Mr. Yardeni predicted they could show a 30 percentage point drop before recovering.

"The Asian disaster is still very much with us, there is no prospect that it is going to go away," he said. This means corporate earnings in America are likely to rise just 2 percent this year, far below hoped-for gains of up to 10 percent.

Investors who agree with Mr. Yardeni should join the flight to the bond market, where he sees further gains. The 30-year bond, he predicted, would end this year at a 5 percent yield, 1999 at 4 percent and 2000 at 3 percent.

The outlook for low interest rates in a still-growing economy is one factor limiting the damage on Wall Street.

Metzler to Expand With Peterson

Bloomberg News

CHICAGO — Metzler Group Inc., a consultant to electric, gas and water utilities, agreed Friday to buy closely held Peterson Consulting for \$191 million in stock to expand its information-management services.

The number of shares Chicago-based Metzler will pay for Peterson depends on the average closing price of Metzler stock in the three days before the sale is completed.

Peterson gives Metzler, which had \$84 million in 1997 revenue,

more consulting expertise in information-management services, such as helping clients prepare computer databases, said Robert Maher, Metzler's chief executive officer. Mr. Maher said he expected Peterson, which has 18 offices in the United States and one in London, to have more than \$80 million in revenue this year and \$100 million next year.

He estimated the acquisition would increase Metzler's earnings starting in the third quarter.

U. S. STOCK MARKET DIARY

Index	High	Low	Open	Close	Change
Dow Jones	8,900	8,850	8,850	8,850	-50
S&P 500	2,800	2,780	2,780	2,780	-10
Nasdaq	2,800	2,780	2,780	2,780	-10
Amex	1,000	990	990	990	-10
Most Active					
IBM	126 1/4	125 3/4	125 3/4	126 1/4	+1/4
Microsoft	126 1/4	125 3/4	125 3/4	126 1/4	+1/4
Apple	126 1/4	125 3/4	125 3/4	126 1/4	+1/4
Oracle	126 1/4	125 3/4	125 3/4	126 1/4	+1/4
Amazon	126 1/4	125 3/4	125 3/4	126 1/4	+1/4
Google	126 1/4	125 3/4	125 3/4	126 1/4	+1/4
Yahoo	126 1/4	125 3/4	125 3/4	126 1/4	+1/4
Alibaba	126 1/4	125 3/4	125 3/4	126 1/4	+1/4
Facebook	126 1/4	125 3/4	125 3/4	126 1/4	+1/4
Twitter	126 1/4	125 3/4	125 3/4	126 1/4	+1/4
LinkedIn	126 1/4	125 3/4	125 3/4	126 1/4	+1/4
Slack	126 1/4	125 3/4	125 3/4	126 1/4	+1/4
Dropbox	126 1/4	125 3/4	125 3/4	126 1/4	+1/4
Evernote	126 1/4	125 3/4	125 3/4	126 1/4	+1/4
OneDrive	126 1/4	125 3/4	125 3/4	126 1/4	+1/4
Box	126 1/4	125 3/4	125 3/4	126 1/4	+1/4

INTERNATIONAL FUTURES

Index	High	Low	Open	Close	Change
Aug. 21, 1998					
Grains					
CORN (CBOT)	2.15	2.14	2.14	2.15	+0.01
WHEAT (CBOT)	2.15	2.14	2.14	2.15	+0.01
SOYBEAN (CBOT)	2.15	2.14	2.14	2.15	+0.01
Metals					
GOLD (COMEX)	320.00	319.00	319.00	320.00	+1.00
SILVER (COMEX)	10.00	9.90	9.90	10.00	+0.10
Oil					
WTI (NYMEX)	18.00	17.50	17.50	18.00	+0.50
Heating Oil (NYMEX)	1.00	0.95	0.95	1.00	+0.05
Gasoline (NYMEX)	0.50	0.45	0.45	0.50	+0.05
Stocks					
DAX (EUREX)	1,800	1,750	1,750	1,800	+50
FTSE 100 (EUREX)	4,000	3,950	3,950	4,000	+50
Nikkei 225 (EUREX)	15,000	14,500	14,500	15,000	+500
Hang Seng (EUREX)	8,000	7,500	7,500	8,000	+500
ASX 200 (EUREX)	4,000	3,500	3,500	4,000	+500
Commodities					
Crude Oil (NYMEX)	18.00	17.50	17.50	18.00	+0.50
Heating Oil (NYMEX)	1.00	0.95	0.95	1.00	+0.05
Gasoline (NYMEX)	0.50	0.45	0.45	0.50	+0.05
Gold (COMEX)	320.00	319.00	319.00	320.00	+1.00
Silver (COMEX)	10.00	9.90	9.90	10.00	+0.10
Platinum (COMEX)	800.00	790.00	790.00	800.00	+10.00
Palladium (COMEX)	1,000.00	990.00	990.00	1,000.00	+10.00
Iron Ore (EUREX)	100.00	95.00	95.00	100.00	+5.00
Copper (EUREX)	3.00	2.90	2.90	3.00	+0.10
Aluminum (EUREX)	1.00	0.95	0.95	1.00	+0.05
Zinc (EUREX)	0.50	0.45	0.45	0.50	+0.05
Nickel (EUREX)	0.20	0.15	0.15	0.20	+0.05
Lead (EUREX)	0.10	0.05	0.05	0.10	+0.05
tin (EUREX)	0.05	0.04	0.04	0.05	+0.01

Stock Indexes

Optical	High	Low	Latest	Clos	Optical	
ATFBI	Sep 99	93.50	94.70	94.20	+0.30	34.00
	Est. sept	94.70	96.00	96.10	+0.10	43.30
17953.14	Dec. sept	91.90	92.90	93.10	+0.20	34.15
17547	Prev. open lat	7697.9	up 5.26			
				</		

EUROPE

Swedes Find Bull Market for Jobs in Reindeer Country

By Warren Hoge
New York Times Service

ARVIDSJÄUR, Sweden — There is a new item for sale these days in the display cases of wooden laplander huts, elk skins and boldly colored wood carvings at the open-air market in Arvidsjaur. Boosters of this town near the Arctic Circle hope it is a talisman of their future.

It is a computer mouse pad, made from reindeer hide.

In an effort to slow the flight of people from what is already one of the world's most sparsely settled areas, the Swedish government is encouraging businesses to set up computerized telephone-call centers in remote villages like this one and to staff them with young people who otherwise would be scouting for work in the population centers to the south.

"Until now, as soon as they got an education, it was either Stockholm or abroad," said Barbro Medin-Leven, the regional development planning director for Norrbotten, Sweden's northernmost county.

A resident of Malmo on the south coast calls for a plumber, a carpenter or a locksmith who may be a block away, and the transaction is handled instantly here, 1,600 kilometers (1,000 miles) away. Someone in

Göteborg needs to go to Nigeria and then to Chile. The airline tickets and hotel reservations are made in this village, where Lapps still herd reindeer and live in 200-year-old log cabins.

Sykes, a large call-service agency based in Tampa, Florida, has opened its customer support center for Scandinavia in the small northern community of Sveg, and in nearby Ljusdal, DHL, the international air courier company, has placed its hub serving eight European countries.

The companies benefit from special investment and operating subsidies that the government provides for enterprises that locate in the north. And they find that even outlying parts of Sweden have a supply of educated, keyboard-literate young people with the Swedes' noted ability to function comfortably in several languages.

Swedes and telephones have a cozy relationship. Sweden has the highest number of lines per person — 70 for every 100 inhabitants — of any country. Forty-four percent of Swedes have mobile phones, and that number is expected to rise to 60 percent by 2000.

David Hansson, 21, slipped off his headphones on a recent day and

acknowledged that he would have followed all the friends out of here had it not been for the booking agent's job he landed at Nymans & Schultz, Sweden's largest travel service. As he spoke, Asa Lidstrom, 28, handed a call note to him from a Stockholm woman who needed flight connections to Cincinnati.

"Before, the best thing you could hope for was a job in a supermarket,

"I am in the business of marketing the cold, the darkness, the snow and the solitude," said one promoter.

and you want something better than that," Mr. Hansson said.

There are only 2.4 people per square kilometer up here compared with an average of 21 per square kilometer in all of Sweden and 144 in Europe. And it is getting roomier all the time.

Forestry is the area's traditional business, but with the closing of outdated plants and the mechanization of others, the number of jobs has declined drastically.

"I used to work as an administrator in a sawmill that employed

60 people and cut 20,000 cubic meters a year," said Sara Andersson, director of the Office of Trade and Industry in Arvidsjaur. "Now the figures have switched completely. They cut 60,000 cubic meters, and there are only 20 employees."

Arvidsjaur is not an easy sell. The town's 5,000 inhabitants have to endure winters with temperatures as low as 30 degrees Fahrenheit (minus 34.5 Celsius) below zero, six feet of snow on the ground and no sun in the sky for all but four hours of the day. Ms. Andersson, a native of an even smaller nearby village called Akkavare, is undaunted, though. "I am in the business of marketing the cold, the darkness, the snow and the solitude," she said cheerfully.

She has compiled a register of men and women who fled for the south, and she is determined to woo some of them back. "They're my target audience," she said. "It is dark and cold, and you have to be brought up here to be comfortable with it."

Ms. Andersson cultivates Nordic moxie. She offered a visitor a lunch of air-dried reindeer meat, local almond potatoes and golden cloudberries for dessert and eagerly took on the question of what's so great

about Arvidsjaur.

"Well, for one thing, it makes you appreciate how good it is to step into a warm house," she said. "Also, you see how closely we all live together. You're not alone the way you are in a large city. All the children here are everybody's children."

She went on to explain that it is actually not darker here than in the south because all that snow reflects the light. It is also a lot easier to get across town. "I have a sister who lives in Stockholm, and she can never make it home in time to get to a store that closes at 7:30," she said.

Arvidsjaur does its best to take advantage of its frigid winters. It put a nine-hole golf course on two frozen lakes and supplies colored balls and heavy-duty gloves to players. It has also created a booming local industry in winter testing facilities for automobiles, using the frozen lakes and large expanses to simulate hazardous driving conditions.

Nearly 50 companies send vehicles and test drivers here. "What they need is the extreme cold, and we can guarantee that," said Mats Lundberg, 34, an Arvidsjaur man who was lured back home by a job in the business.

Germund Nilsson, area manager of Nymans & Schultz, said there were many advantages to doing business in Arvidsjaur. "It's cheaper to hire people up here, and they're more loyal because they're not easily going to cross the street and find another job," he said. "It's not just being socially conscious," he added, rubbing invisible cash between his thumb and forefinger. "It's this too."

Inga-Lill Gustafsson, the reservations manager for Hertz, said callers liked hearing the broad northern accents of her booking agents. "We're not like all those stressed-out people in Stockholm," she said. "They think we sound honest and dependable."

Asked about this, Ms. Lidstrom, of Nymans & Schultz, said, "People just laugh and say, 'Oh, you sound so nice.' Then they want to know if we really have polar bears walking around our streets."

A thought that knows no geography came to her and she smiled. "Actually it doesn't matter where we are," she said. "They're just so happy that someone answers the phone."

Norwegian Central Bank Raises Interest Rates

Bloomberg News

OSLO — Norway's central bank raised benchmark interest rates by 1.5 percentage points on Friday, the sixth increase this year, to shore up the krona after the currency fell to its lowest level in nearly six years on Thursday.

Low oil prices and concern that fiscal policy would not be tight enough to cool the economy have put pressure on the krona.

Norges Bank raised the deposit rate to 7.0 percent from 5.5 percent and the overnight lending rate to 9.0 percent from 7.5 percent, the highest since March 1993. Before Friday, the bank raised rates by a total of 2 percentage points in March, May, June, July and August.

John Butler, an analyst at WestLB Research in London, said, "It is unclear whether even this bold move will be enough to support the

currency, and additional rises may be forthcoming, especially if oil prices should fall further."

The increase follows repeated warnings from the central bank that the economy may overheat. At the same time, a global supply glut has pushed crude oil prices to near 10-year lows, hurting oil producers such as Norway, which is the world's second-largest oil exporter after Saudi Arabia.

The krona has fallen about 8 percent against the Deutsche mark since the start of October. On Friday, the krona recovered, with the mark falling to 4.2991 krona from 4.3211 krona on Thursday.

"I believe this rate increase will contribute to stabilizing the krona rate," Kjell Storrivik, governor of Norges Bank, said, according to the Norwegian news service TDN Finans. "I can't see that the interest rate

level after this increase will cause so much damage to the economy that it can't be defended over time."

The bank has not stopped buying the krona to support the currency, Mr. Storrivik said, adding that it has not been using large-scale interventions this year.

With the krona still weaker than the bank's target, more rate increases may come, analysts said.

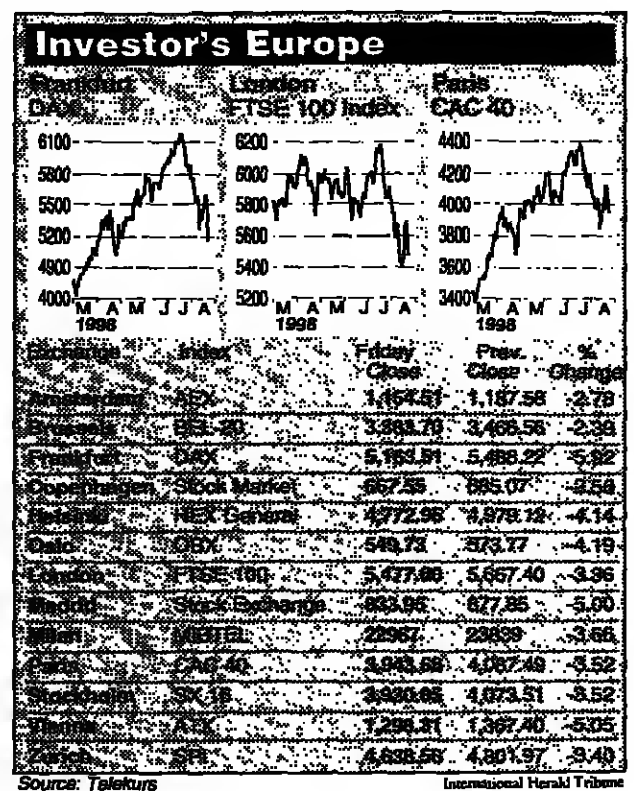
"It's too early to say if the hikes will be enough," said Oystein Stephansen, the head of research at S-E Banken in Oslo, "but it looks like the central bank is determined to get on top of things."

The central bank expects economic growth to accelerate to 4.25 percent next year from 3.5 percent this year, fueled by oil and gas activities and consumer spending, while inflation is set to rise to 3.0 percent from 2.5 percent. At the

same time, unemployment is expected to continue falling, putting pressure on employers to raise wages to attract workers.

In addition to low oil prices, the krona has been hurt by higher-than-expected wage increases of nearly 6 percent this year, as well as concern the minority government will not be able to garner enough support in Parliament to cut government spending in an effort to reduce demand.

Prime Minister Kjell Magne Bondevik has said the government aims to tighten the 1999 budget, due on Oct. 5, by between 0.5 percent and 1 percent of gross domestic product. Still, the budget process will be difficult since the government will have to compromise either with leftist parties that traditionally oppose reduced spending, or with rightist parties that oppose tax increases.



Very briefly:

• Hoechst AG denied a charge made in a U.S. lawsuit that it tried to fix prices of its best-selling heart drug, Cardizem CD, but the German pharmaceutical company said it had an agreement with Andrx Corp., a maker of a rival product, pending the resolution of a patent-infringement lawsuit.

• De Beers/Centenary AG, the world's largest diamond producer and seller, plans to renew its agreement to buy diamonds from RAO Alrosa, a Russian diamond miner, for at least three years.

• L.M. Ericsson AB of Sweden has bought property in central London for 1 billion kronor (\$123 million) and plans to move part of its British operations there. The move revived speculation that it could move its headquarters abroad because of a sluggish business climate in Sweden.

• Thomson Travel Group PLC, Britain's top package-tour operator, has bought Crystal International Travel Group Ltd. for £66.2 million (\$107.7 million) as it seeks to develop its specialist tour businesses in Britain.

• Rabobank Nederland NV's first-half profit rose 16.3 percent to 1.16 billion guilders (\$571.8 million) as the largest cooperative Dutch bank was helped by low interest rates and higher lending.

• Dutch retail sales rose 5 percent in June from a year earlier, with more confident consumers spending more on computers and other electronics amid falling unemployment.

• Sita SA, Europe's largest waste services company, said second-quarter sales rose 79.4 percent to 4.81 billion French francs (\$799 million) from a year ago, bolstered by last year's acquisition of the French business of Waste Management Inc. as well as the European and Asian operations of Brown-Ferris Industries Inc.

AFP, Bloomberg

WORLD STOCK MARKETS

Friday, Aug. 21
Daily prices in local currencies.

High Low Close Prev.

Amsterdam

ASEX Index: 1124.24

Previous: 1124.24

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High Low Close Prev.

Johannesburg

All Share Index: 20,131.50

Previous: 20,131.50

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High Low Close Prev.

London

FTSE 100 Index: 5,877.80

Previous: 5,877.80

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The 2,600 most traded stocks of the day.
 Nationwide prices not reflecting late trades elsewhere.
 The Associated Press.

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Continued on Page 14

Excludes Bid for Paying Ford

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ASIA/PACIFIC

GM Decides Not to Bid for Kia, Leaving Race to Ford

Compiled by Our Staff From Dispatches

SEOUL — General Motors Corp. decided Friday not to bid for the insolvent South Korean automaker Kia Motors Corp., reversing an earlier decision to enter the race.

Friday was the deadline to submit bids for the collapsed automaker, and Ford Motor Co. and three Korean companies made offers, said Banque Nationale de Paris, the adviser to the government auction.

But GM pulled out at the last minute after concluding that Kia and its affiliate, Asia Motors Co. Inc., also part of the sale package, "would not be compatible with our strategic needs," said Alan Peritt, president of GM Korea.

GM said in July that it would bid. Its reversal leaves Ford as the most likely buyer of the 51 percent controlling stake in Kia. The three domestic bidders — Hyundai Motor Co., Daewoo Motor Co., and Samsung Motors Inc. — have seen sales collapse amid the country's worst recession since the 1950s, and they could have trouble raising funds.

The government said it will pick a winner by Sept. 1, based not only on price but also on job preservation and business strategy considerations.

Kia remains under court receivership after filing for bankruptcy protection in July 1997. Its creditor banks have promised to write off nearly half of Kia's \$6.7 billion debt to make the company more attractive. Kia has \$5.9 billion in assets.

The automaker's troubles have shaken investors' confidence in South Korea. Seoul called in the International Monetary Fund in December to organize a record \$58-billion bailout for its economy. The move to sell Kia is part of the government's effort to restructure under the bailout terms.

Ford already owns 16.9 percent of Kia. (AP, Bloomberg)

Japanese Trader Goes Bankrupt

Bloomberg News

TOKYO — Okura & Co., a trading company with strong links to Fuji Bank Ltd., said Friday that it had sought protection from creditors, becoming Japan's third-largest bankruptcy this year and the latest casualty of the country's deepening recession.

Okura, the third-largest of the four publicly traded companies to fail this year, said it had 288.3 billion yen (\$1.99 billion) in liabilities as of March. The company, which trades machinery, steel and other commodities, said its liabilities exceeded its assets by 6.9 billion yen, and it holds 98 billion yen in bad assets.

Okura blamed its failure on the seven-year slide in property prices,

the weak economy and a shortage of funds. The company's collapse comes after six straight years of annual losses and is another sign that Japanese banks are no longer able or willing to extend easy credit to their clients. Struggling under 77 trillion yen in risky and bad loans, banks are cutting off companies with limited futures and tightening requirements for loans to others.

"Banks are setting aside more money for future failures, and they're even more cautious with doling out new loans," said Norio Kunitake, Okura's president. "If all the banks start doing that, we're in for a really serious situation."

Okura said its main bank, Fuji,

and "one or two other main lenders" did not call in their loans until the very end.

Yet the 125-year-old trading company said it filed for bankruptcy after almost every one of its other 60 creditors withdrew support.

The company also lost its trading credits and could not find buyers for new shares it hoped to issue next month.

"Finding people to lend you money is like climbing a mountain — the closer you get to the summit, the steeper it gets," the president of Okura, Yoshihiko Okura, said. Okura's shares were suspended from trading on the Tokyo Stock Exchange. The shares finished Thursday at 65 yen, up 12.

Top 3 Producers Pull Out of Rubber Cartel

Bloomberg News

SINGAPORE — The world's top three rubber producers — Thailand, Indonesia and Malaysia — said Friday that they will pull out of the International Natural Rubber Organization and set up a rival group that aims to cut production to a level 20 percent below world demand.

The three countries, which produce 80 percent of all natural rubber, are angered by a lack of action by the existing group, known as INRO, to stem a 30 percent slide in rubber prices over the past year. The countries said they would withdraw all

their funds from the cartel, depleting its intervention reserves and leaving it largely ineffective.

"The withdrawal of the three countries will put into question the existence of INRO," said Gerard Loeven, deputy executive director of the organization, which is based in Kuala Lumpur.

Rubber prices have fallen as industrial production in Asia has slumped, pulling down demand for cars and tires.

With supplies still outstripping demand, Mr. Loeven said, prices "may continue to slip."

The cartel did buy rubber on the market over the past two weeks, but those purchases did little to support prices. It bought about 30,000 metric tons of natural rubber last week, spending as much as 100 million ringgit (\$24.1 million), traders said. The organization would not confirm those purchases.

No matter how much they are buying, "there is still too much rubber in the market," said Kang Liat Bin, a Singapore-based marketing manager with Sahabat Co., a subsidiary of PT Kirana Megatara, a privately held company that is one of the largest rubber producers in Indonesia.

The withdrawal of funds from the organization amounts to 200 million baht (\$4.8 million) for Thailand and 29 million ringgit for Malaysia. The figure for Indonesia was not immediately available.

The three countries setting up the new group plan to include Singapore, said Lim Keng Yaik, the primary industries minister of Malaysia.

The International Natural Rubber Organization groups 18 importing and six exporting countries.

Bringing Tea to China: Coke Will Try

Reuters

SHANGHAI — Coca-Cola Co. is bringing tea to China.

The American soft-drinks giant said Friday that it planned to introduce canned tea in China. It described the Chinese market for a pre-made variety as virtually untapped.

Coca-Cola will begin with a

homegrown product — tea leaves from the Fujian Province in China — and brew the tea with mineral water.

Two versions of the beverage — sweetened and unsweetened — will be introduced in the eastern cities of Shanghai and Hangzhou.

The drink will cost 2.5 yuan (30 cents) to 3.5 yuan.

Jakarta Halts Activities of 3 Ailing Banks

Compiled by Our Staff From Dispatches

JAKARTA — The Indonesian government said Friday it was freezing the operations of three ailing banks and taking over four other institutions in a restructuring of the ailing financial sector.

The government froze operations of PT Bank Dagang Nasional Indonesia, PT Bank Modern, and PT Bank Umum Nasional, Finance Minister Bambang Subianto said. He said four other private banks — PT Bank Central Asia, PT Bank Danamon, PT Bank PDICI and PT Bank Tjara — would be taken over.

The government also warned owners of the banks, who include the nation's most powerful business families, that it would seek to seize their assets through the criminal and commercial courts to pay their banks' debts if necessary.

The government has pumped 135 trillion rupiah (\$11.37 billion) into troubled banks since the collapse of the rupiah in July 1997.

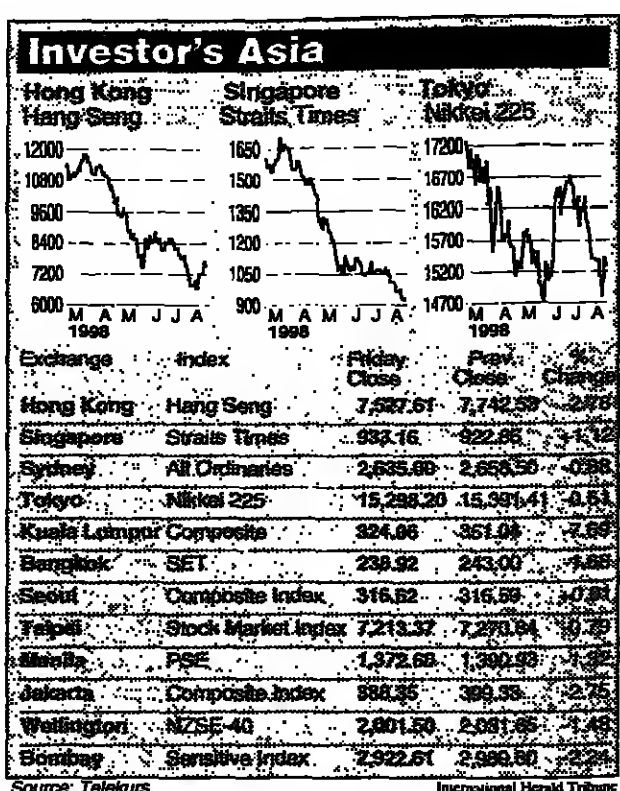
All seven banks have been under the management of the Indonesian Bank Restructuring Agency following serious liquidity problems.

Mr. Subianto also announced that seven banks that had their operations suspended in April would be liquidated. They were Bank Subentra, PT Bank Surya, PT Bank Pelita, Bank Kredit Asia, Centris International Bank, Deka Bank and Hoko Bank.

About 300 Indonesians gathered in front of the central bank to protest the steps.

"The trillions pumped into the banks, that's our money," said Bursh Zarnubi, the organizer of the protest. "Because all this money has been funneled into these banks, prices are rising and the basic needs of the people can't be met anymore."

About 200 troops and police officers kept an eye on the crowd. The protesters later marched toward police headquarters in South Jakarta, chanting, "Bank Indonesia, a den of thieves." (AFP, Bloomberg)



Very briefly:

• San Miguel Corp., the largest food and beverage conglomerate in the Philippines, is selling its 45 percent stake in a dairy joint venture, Nestle Philippines Inc., to its partner, Nestle SA of Switzerland, for about 30 billion pesos (\$704.7 million).

• Japan Telecom Co., Nissan Motor Co. and AirTouch Communications Inc. plan to form a joint venture in Japan to offer a new type of cellular phone service known as W-CDMA, or wide-band code division multiple access service, which allows users to send multimedia information such as graphics and motion pictures through cellular phones.

• Moody's Investors Service Inc. has cut the credit ratings of four of Japan's largest fire and property insurers. Tokio Marine & Fire Insurance Co., Yasuda Fire & Marine Insurance Co., Mitsui Marine & Fire Insurance Co. and Sumitomo Marine & Fire Insurance Co. were cut from Aaa to either Aa1 or Aa2 because of declining premium income, a harsh investment climate and growing competition with foreign companies.

• Valeo Co. and Hosbi Ito Co., two Japanese drug wholesalers based on the northern island of Hokkaido, plan to merge on equal terms in April.

• Dell Computer Corp. began direct sales of built-to-order computers in China. Xinhua news agency reported, quoting Morio Topfer, vice chairman of Dell, which has nine locations in major Chinese cities. (AFP, Reuters)

TELECOM: Major Firms Scramble to Maintain Global Alliances

Continued from Page 9

alliance of Deutsche Telekom AG, France Telecom SA and U.S.-based Sprint Corp., results have fallen short of their original heavy expectations, analysts occur, even before the BT-AT&T partnership.

"There is disappointment on both sides, by Deutsche Telekom and France Telecom, over Global One," said Philip Springuel, industry analyst in Brussels at the OTR technology research institute.

For those left in the old alliances, each defection disrupts the operation and can damage perceptions that it can deliver ever more sophisticated services.

"When one partner leaves the organization, they take their network with them," Mr. Neil said. "The remaining partners need to find a replacement network and integrate that network. That means at best a short-term decrease in quality and at worst a long-term de-

crease in quality."

Just as ominously, both AT&T and BT rank as veterans of the previous shakeouts among Europe's alliances. That means that this time around, the two giants are determined to avoid the flaws that plague older alliances, such as incompatibilities in networks and billing systems and confused "United Nations-style" management among the parent-company operators, said Michael Amutegbe, London-based analyst at Morgan Stanley Dean Witter.

Even after Global One invested over \$900 million in its network, analysts question the "seamlessness" of its connections. Reports of patchy service continue to haunt Global One, mainly because such alliances by their nature rely on scores of "distribution alliances" with one-alliance carriers around the world that are needed to deliver the service into the 70 nations where Global One operates.

"I would never say we are as seamless as we can be," said Boh Givens,

Global One's general manager for Europe. "That just would not be true. But I think we are the most seamless international alliance today."

AT&T and BT pose "quite a teaming up of giants," Mr. Givens agreed. "They will be a substantial competitor to us in two and a half years, but we have a head start on them," he said.

The executive declined to discuss Global One's profit-and-loss account. But analysts said Global One cannot expect a profit until at least 2000 after missing its break-even target for 1998. Competition has grown so fierce that prices are under heavy pressure, forcing Global One last year to cut 7 percent of its staff in a cost-shaving restructuring.

Brussels-based Global One, conceived four years ago in high hopes of creating a high-powered combination destined for market dominance, reported 1997 sales of \$1.1 billion, only a modest chunk of the estimated \$20 billion spent collectively last year by the 500 biggest multinationals.

Hong Kong Stocks Fall as Intervention Ends

By Mark Landler

New York Times Service

HONG KONG — After a week-long buying binge to prop up its slumping stock market, the Hong Kong government let the free market take over Friday, and the Hang Seng index promptly dropped.

To critics of the government, the abrupt reversal is proof that its decision to intervene last Friday was wrong-headed — a temporary victory that will cost Hong Kong its reputation as a free-market bastion in a region where governments do not hesitate to manipulate their markets.

To supporters, the decline merely represents a tactical pause in the gov-

ernment's campaign against speculators. They point out that since the Hong Kong Monetary Authority began buying stocks last Friday, the Hang Seng index jumped 16 percent, before the decline Friday.

Both sides agree that Hong Kong curbed its purchases of shares and futures contracts, and may even have sold some shares. As a result, the Hang Seng index declined 214.92 points, or 2.8 percent, to 7,523.61.

"Our clear message to investors is: Lock in your gains and get out," said Adrian Fawc, the head of China and Hong Kong Research at Merrill Lynch & Co. in Hong Kong. "This market is artificially inflated."

Mr. Fawc estimated that the gov-

ernment spent between \$640 million and \$770 million of its foreign reserves to buy shares of blue-chip companies. That is less than 1 percent of the estimated \$100 billion Hong Kong has in reserves, but some analysts said it was still money that could have been better spent elsewhere.

Hong Kong officials said the purchases were a necessary response to hedge funds that were manipulating the territory's financial markets.

"We are not out there to support the stock market at a certain level," Tung Chee-hwa, the chief executive of Hong Kong, said Thursday. "It is a very defensive effort targeted specifically at this particular action," he added.

QUESTAR: In Bid to Be Dominant, Gene Firm Faces Inquiry

Continued from Page 9

"That's just not the way finance works."

Questar shares soared from 65 cents to \$5.50 in the two weeks before the offer was announced. The SEC, as part of its inquiry into trading in Questar stock, has asked for a copy of the company's shareholder list, and Questar has complied, Mr. Washburn said.

Questar executives said the Japanese offer makes sense.

"I'm very popular in Japan," said Mr. Mullis, who won the \$385,000 Japan prize, an award sponsored by a business group, in 1993 — the same year he won the Nobel.

Mr. Washburn said he was introduced to Pax International by a film producer he encountered by chance in a lounge at the Marriott Hotel near Los Angeles International Airport. He added that he met Pax's president, Tetsuo Kobayashi, 43, in Tokyo in early June.

It was during that visit, Mr. Washburn said, that Pax first discussed making a bid for Questar shares. Mr. Kobayashi told him, Mr. Washburn added, that Pax had assets of more than \$4 billion. That was a far cry from the 110 million yen (\$769,000) in total net assets that the Japanese company held as of

March, according to an estimate by Teikoku Databank, a corporate research firm.

"They think they can generate \$9 billion of business in Japan and Taiwan," Mr. Washburn said.

The offer is contingent on Questar beginning to file reports with the SEC, something it has never done. Mr. Washburn said the company's books were now undergoing their first audit by independent accountants, an SEC requirement for it to become a reporting company.

Mr. Kobayashi declined to comment for this story. Questar, meanwhile, is in the process of changing its name to DNA Medical Technologies Inc. At the center of the company is Mr. Mullis, an unorthodox scientist who spends much of his time these days surfing in the Pacific Ocean, just across the street from his apartment, north of San Diego.

Mullis won the Nobel prize for chemistry for work he did in the 1980s. He invented a new way to reproduce DNA fragments, while he was employed at Cetus Corp., a biotechnology company that developed anti-cancer drugs.

Mr. Mullis said that Cetus only gave him a \$10,000 bonus for the prize-winning breakthrough. The company

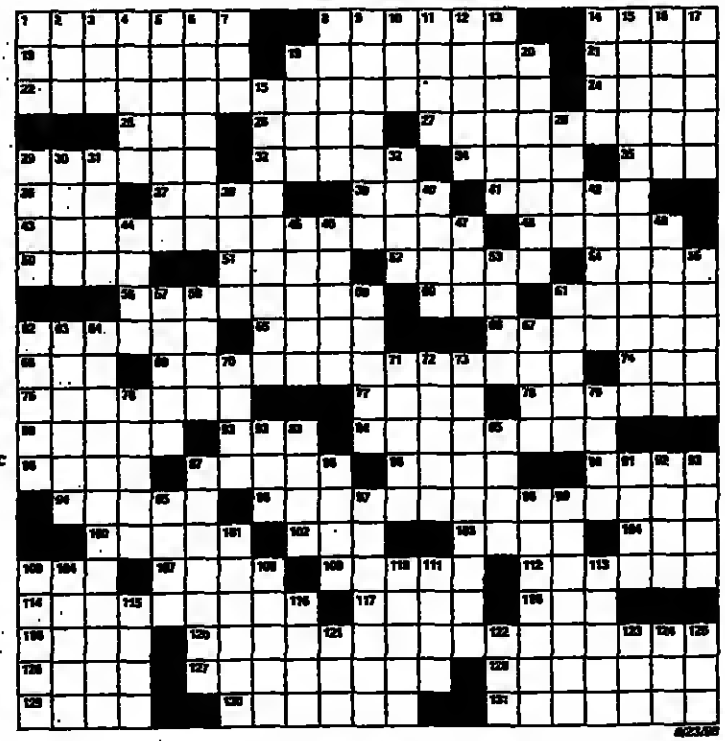
decapitalized Japanese company — are a series of fundamental questions: Will people pay \$15, or any price, to deep-freeze their genes?

If so, will they entrust them to Questar, a company with few tangible assets? Then, if this business does catch on, what's to prevent a well-established health-care company from copying Questar's idea? To that last question, Mr. Washburn answered bluntly: "Absolutely nothing."

Added to the numerous challenges Questar faces — an SEC inquiry, a slumping stock price, and a questionable bid from a seemingly un-

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Friday's 4 P.M. Close
(Continued)

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Risk: Is It the Ups and Downs That Count, or Just the Downs?

By Conrad de Aenlle

SUCCESSFUL investing depends upon weighing the risks and expected returns of various alternatives, yet many investors fixate on returns and give little thought to the risk inherent in achieving them.

This is understandable, for risk is the harder of the two to fathom. Risk reflects possible outcomes of future events determined by forces that are often unknown or unquantifiable. It is the reason that virtually any course of action by an investor has an expected return, not a definite return. Because it concerns what might be, risk cannot be studied directly but only inferred, like an eclipse glimpsed as a shadow cast against a wall.

Academics often equate risk in investments with price volatility. They will typically look at monthly prices for instruments such as stocks, bonds or mutual funds, then calculate how much those movements vary around the average. The investment with the greatest variation is the most volatile and so is judged to have the highest risk.

Such a notion is limited because the average return around which volatility is measured is almost beside the point. To real investors, of course, returns are virtually the whole point. To them, risk means the risk of loss, either absolutely or against a benchmark.

"Volatility is simply one measure one might use for risk," said Elroy Dimson, a professor of finance at the London Business School. "Risk ought to be regarded as shortfall risk, performance below some critical level."

The critical level could be zero—breaking even—or else a return equaling the rate of inflation. For pension-fund administrators and insurers, Mr. Dimson said, risk means the chance of generating returns that are lower than liabilities to retirees or claimants.

Rather than considering volatility in a vacuum, Merrill Lynch & Co. finds it more useful to define risk in various ways relating to the potential loss in an investment's value implied by past volatility. For instance, if a stock index suffers a loss from its annual peak to its annual trough of 20 percent over a four-year period, investors have a rough idea of how much they stand to lose if they are unfortunate enough to buy when the market is at a top.

Jerry Harris, a principal at Welton Investment Corp., a small California money manager, said that in addition to the depth and number of declines, the time it takes to recover the loss is a key measure of risk to investors.

Performance records "with a minimal number of brief, smaller losing periods will generally be perceived, considered and accepted as being less risky than records characterized by frequent, extended periods of negative performance," regardless of overall returns, he wrote in a newsletter of the Alternative Investment Management

Association. "This becomes even more important in the context of investor time horizons. The consistent track record is far less susceptible to market-cycle timing considerations and consequences."

Consistency helps, but Douglas Johnson, global asset-allocation adviser at Merrill Lynch Asset Management, warned that "if you don't think about even risk, you can run into trouble." One market that troubles him is the United States, which "by any standard is perhaps more overvalued than any market in the world or by the standards of its own history." Yet that has been the case for months, and investors would have lost out by not being in the market for most of the past three years. "It is as risky," Mr. Johnson said, "to have a zero percent allocation to equities as it is to have a 100 percent allocation. Investors need to find a balance they're comfortable with."

Mr. Johnson was betraying his belief that market movements are not random. Circumstances like overvaluation make markets accident-prone. Many students of risk are agnostic on whether there is a relationship between past and future returns. They merely forecast volatility from past volatility.

Individual investors tend to be atheists; they believe that overvalued markets hold no risk and that beaten-down markets are the riskiest. That is why valuation extremes occur and why investors have until recently ignored the event risk that Mr. Johnson perceives in American stocks, while shunning Asian markets that are one-tenth their former prices, although some scientific measures suggest that they are still dangerous (Page 17).

Fund managers eager to hold on to their clients' money encourage them to ignore timing and stay fully invested. They point out that the longer an investment is held, the less likely it is to suffer a loss of principal. Equities are more volatile than other mainstream investments over a given period but are usually the most profitable over the long run.

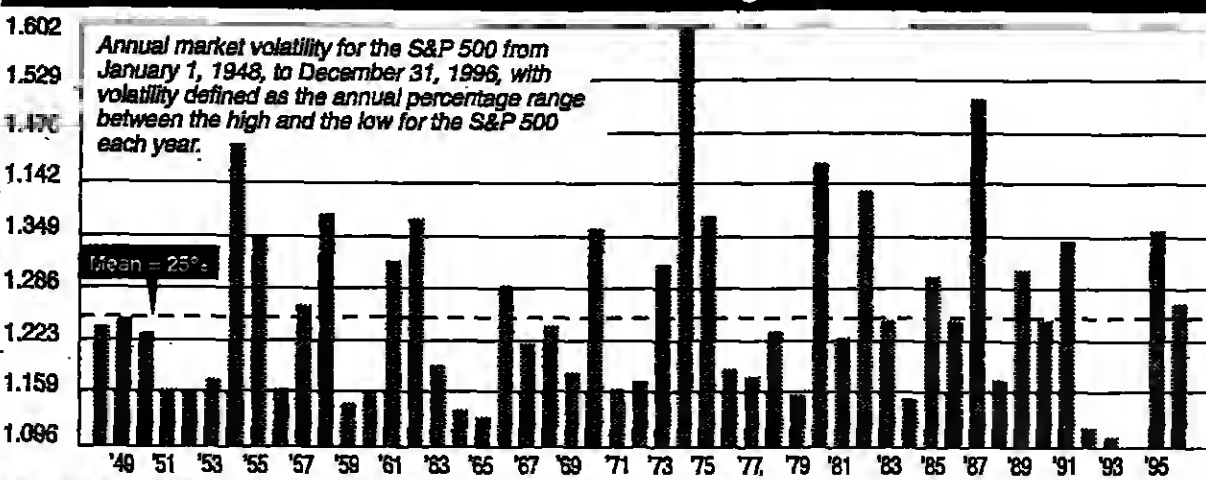
Because the possibility of loss diminishes with time, financial planners tend to increase the allocation of equities in portfolios of clients that do not expect to need their money for years, while keeping more cash and bonds for clients with shorter time horizons.

The question that Evelyn McGovern, a specialist in investment planning at the consultancy KPMG, asks when creating portfolios is: "Is short-term loss of principal the most key element, or is it long-term purchasing-power erosion, or is it opportunity cost?" (The last is being in investments that make money and beat inflation, but that do worse than other investments.) "If they're trying to amass a corpus of wealth over 10 or 20 years, then they can afford to take more equity risk."

Time is one of the great mitigators of risk; the other is diversification. Owning pooled investments is safer than owning individual securities, Ms. McGovern said. Spreading money among different asset classes, mainly stocks and bonds, and in diverse regions and currencies is also prudent.

Some mixes of assets are better than others; studies have found that adding small amounts of investments whose performance is minimally correlated with the rest of a portfolio, such as real estate or emerging-market stocks, can substantially reduce volatility with little effect on performance.

Measuring the Difference Between Market Highs and Lows



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EVEN if investors can afford to increase the risk they are taking, they may not like it or be prepared for it. This is why risk matters, even to investors who intend to hold for the long term. The most elegant argument for building more risk and reward potential into a portfolio is useless "if people are risk-averse and they don't want to know," Harry Katz, a financial adviser at Norwest Consultants in Manchester, England, remarked. "They've got to be relaxed. An adviser can explain risk and volatility, but at the end of the day, the guy who writes the check out has to sleep at night."

Risk also matters when comparing the merits of different investments. Some mathematical devices, such as the Sharpe ratio, take past returns and volatility to calculate a risk-adjusted return.

Another mathematical contrivance, the implied equity risk premium, is used to compare the prospects of stocks and bonds by calculating the extra return that investors demand for holding stocks—that is, how much riskier they are perceived to be than bonds, and, by inference, how undervalued or overvalued they are. This is typically done by adding the market's dividend yield to projections for annual earnings growth for several years, then subtracting the yield on the government bond used as the benchmark for a particular country. A higher risk premium is thought to signify a more reasonably valued market.

That would seem to make European

stock markets, many of which have doubled in the last three years, an even better bet than bonds than they were before the markets advanced, Mark Howdle, a strategist in London for Salomon Smith Barney Inc., contended.

Because bond yields have fallen so far during that period, risk premiums have actually widened to between 3 percent and 4 percent for such markets as Germany, France and Spain from less than 3 percent. In fact, because yields on Spanish bonds were so high, the risk premium on its stock market had been about zero.

So European equities are undervalued—if forecasts of earnings and bond yields are correct. Those are two big ifs. Even if the assumptions on which it is calculated prove true, the risk premium can be a problematic tool. Its correct level—how much greater should returns be to make it worthwhile buying stocks rather than bonds—is open to interpretation.

Figuring it correctly is critical because a small change in the risk premium could make a huge difference in valuations. Byron Wien, chief investment strategist at Morgan Stanley Dean Witter & Co., said recently that he found the Standard & Poor's 500 index of U.S. blue-chip stocks to be 17 percent overvalued using a 2 percent risk premium. Cutting the premium to zero would make the index 22 percent undervalued.

Mr. Howdle said that at the current risk premiums, most large European markets should fall 5 percent to 21 percent in the next year, based on Salomon's assumptions on interest rates and earnings. Using the "mega-optimistic case" of a 1 percent risk premium, the markets should double or triple in the next year.

"It seems universally accepted that equities should provide a risk premium over bonds," Mr. Howdle said, "but without much analysis of what risks the equity investor needs to be com-

Continued on Page 17



Drawing by Nicolas Audebert

Guaranteed Funds Provide Equivalent of 'Free Lunch'

By Conrad de Aenlle

THE INVESTMENT equivalent of a free lunch is to achieve the stock market's performance without risk. Funds promising to do this have become prominent features on the menus of many management companies and are aimed at investors who have avoided the stock market because they find volatility unpalatable.

Guaranteed funds, as the genre is known, typically offer to pay 100 percent of the gain of a benchmark stock index, sometimes more, over the course of four to seven years, with investors promised their money back if the index falls. A requirement of the funds is that investors hold out for the full term in order to be assured of a return of capital.

These funds are heavily marketed in Britain, where they must be packaged as insurance instruments to appease regulators, and in Continental Europe, especially France and Spain. They are not allowed in the United States.

"In the last two years, we've seen more of these products put together," said Ian Millward, investment marketing manager at Chase de Vere Investments, a British firm of financial advisers. Even though investors know the stock market generally offers the best returns, many keep their money in the bank, he said, "because they're more concerned about security. They don't want to take risks. These combine the two."

"They do have their place. If there's somebody who's sitting on far too much cash and they're nervous, they should consider it for part of it, but it's not a dream investment."

Guaranteed funds are so in vogue now, Mr. Millward said, that "if you put two investments alongside each other, one with a guarantee would sell better, even if it were the inferior investment. You have to be careful; there are some that are very good but some that are real dogs."

David Kauders, a partner in Kauders Portfolio Management in southwest England, finds little to recommend in guaranteed funds. "I haven't seen one where we could understand the risks," he said. "They are based on costly assumptions and complacency and are sold to people who don't understand risk."

He was alluding to the fact that loss of capital is not the only risk investors face: Managers use derivative instruments, such as stock-index options, to provide the guarantee, and they have to pay for them out of the money in the funds.

That leaves investors facing either lower returns than could be obtained through conventional equity funds in a rising market or, if the worst happens and the original capital is returned years later, an erosion in purchasing power of their investments as inflation bites.

ONE of Mr. Kauders' complaints is that the cost of providing a guarantee is often high, difficult to calculate and not adequately explained: "They basically duck and say, 'We've bought this wonderful derivatives package.'"

Mr. Millward said that the guarantee typically costs from 10 percent to 14 percent of a fund's assets. Later, though, market conditions have made guarantees more difficult to pay for.

One fund that aims to protect capital does not use derivatives to guarantee against loss. Denis Severis, a portfolio manager in France, operates an offshore fund for wealthy clients (minimum investment \$250,000) that invests in other funds, typically about 20, with a diverse range of investment objectives. The funds are chosen by the risk-adjusted return of each manager.

The goal of the Absolute Return Management Fund is to return twice the prevailing rate on U.S. Treasury bills without having a losing month.

But as the fund does not use derivatives or anything else to protect capital, the goal remains just that: an intention, not a guarantee.

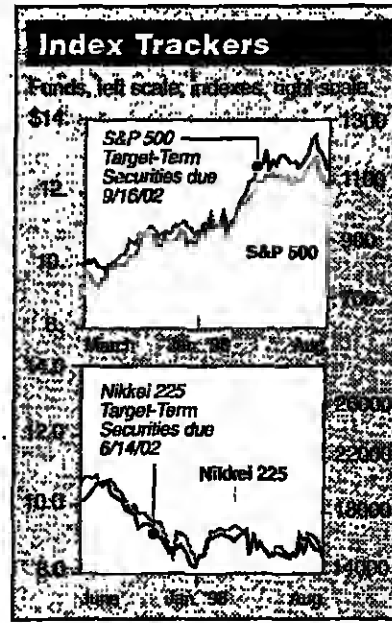
The fund, begun 31 months ago, has gained 11.6 percent per year, more than twice the T-bill return, on very low volatility, which gives it a high risk-adjusted return, Mr. Severis said, but it has had two losing months.

An advantage of such a fund for in-

vestors who do not require total capital protection is that an investment need not be held for a fixed period; shares can be redeemed monthly. A drawback is that the fund is very expensive to operate. In addition to the fees of the component funds, there is a 1.2 percent annual management charge plus a performance fee equal to 10 percent of the annual return.

The guarantee of a conventional capital-protected fund typically costs between 10 percent and 14 percent of a fund's assets, Mr. Millward said. Later, though, market conditions have made guarantees more difficult to pay for.

With interest rates low and share prices high, the income from bonds and dividends often used to fund guarantees has diminished. At the same time, mar-



ket volatility, a central component in the pricing of options, has increased, making them expensive. It is logical, if inconvenient, that in circumstances in which market risk is reckoned to be most acute—high volatility and high valuations—the cost of protecting against that risk is greatest.

A cheaper, more liquid form of capital-protected investment trades on American exchanges. Known by such acronyms as MITTS and PERQS, they are usually issued at \$10 apiece and promise to return that sum in several years, plus an amount reflecting the increase in a broad stock index or one based on a particular industry.

The securities trade continually, as stocks do, and although underwriters collect a fee when securities are issued, once they begin trading there are no costs akin to a fund's sales charge. Participants in the market are likely to ensure that pricing remains keen and reflects the true value of the securities based on prevailing interest rates, volatility and the index being tracked, said Greg Siegel, an analyst at Fitch IBCA.

The drawback is that most of the indexes they follow have risen since their issue, so they are trading above the \$10 that is guaranteed. Exceptions are two securities targeting Japan.

Some newer guaranteed funds cope with the high cost of capital protection by having longer lives, and so more income to funder the guarantee, or else they cap the gain on the indexes they follow. Mr. Millward said. Other funds do not fully protect capital but promise to limit losses in a given period.

A range of funds offered by a London firm, Close Fund Management, for instance, put a floor on losses of 5 percent a quarter in an attempt not to eliminate all risk but to avoid the sorts of disastrous losses that have been experienced in Asian markets.

"In equity investing there's the potential to lose a lot of money," said Marc Gordon, Close's managing director. "Timing is important. If you get it wrong, it may take a long time to recover. What our funds are trying to do is achieve strong returns and let investors sleep at night."

But losses can mount quickly in a sustained bear market, even with a 5

Continued on Page 17

An On-Line Account That's All Fun and Games

ON-LINE trading makes buying and selling stocks easy, fast and cheap. Is that a good thing? Not entirely. The way to make money in stocks is to buy them and hold them for a long time. In theory, you can do your buying and holding electronically, but, in practice, the Internet makes the temptation to trade—i.e., own stocks for a short time only—practically irresistible.

And, as two finance professors from the University of California recently concluded, "trading is hazardous to your wealth." In a recent breakthrough study, Brad Barber and Terrance Odean examined the discount brokerage accounts of 64,715 investors and found that those who did the least trading earned returns that were 75 percent higher than those who did the most.

But this won't be another buy-and-hold sermonette. On the contrary, I believe there's a legitimate place for fast-paced trading, electronic or otherwise, in what I call a Fun and Games Account (FGA), a pot of money for playing the market, as opposed to investing for a long-term goal like retirement.

Here are the FGA's characteristics:

- It must be small, representing no more than 10 percent of the total funds you're committing to stocks.

- It must be completely walled off from your main investment account. Keep your FGA with an on-line broker, for example, and your long-term investment account elsewhere.

- All taxes associated with the FGA must be paid from that account alone.

- It has to be funded with money you can afford to lose. Write a check or transfer the money electronically, and assume that the whole thing is gone. In fact, it soon may be.

- It should serve two purposes: as a way to have fun and a way to learn.

Trading stocks is a diversion that should not be confused with actual investing. The reason is that trading is based on a faulty premise: that you can figure out which way stocks will move in the short term. No one can, but nearly everyone needs to go through the personal experience of discovering this lesson of fallibility.

So trade to your heart's content in your FGA. At the end of a year—if your money holds out—compare your after-tax performance with your investment account and with the broad market.

There are three reasons it is unlikely your FGA will win: 1) trading, even at \$7.95 a pop, cuts into profits; 2) taxes on short-term gains are steep; and 3) many amateur traders sell and buy at the wrong time, as fear and greed overwhelm logic.

Here are some intriguing alternatives for an FGA right now:

Momentum. The easiest plays for short-term investors are momentum buys—you purchase a hot stock that has been rising and sell it at the first sign that the move is over. This activity is similar to jumping onto a moving train and approximately as dangerous—but that's what an FGA is all about.

To find out what's hot, simply check the list of new highs that appears each weekday in The Wall Street Journal. Lately, it's been a short list: just 44 stocks Thursday on the New York and NASDAQ exchanges (compared with 460 one week ago).

Among the hottest of the hot is Dell Computer Corp. (symbol: DELL), which, appropriately enough, sells custom-packaged computers on-line, with remarkably efficient service and low prices.

JAMES K. GLASSMAN ON INVESTING

If you had bought 1,000 shares of Dell in 1993 at \$19.50 each (total: \$19,500), you would on Aug. 20, after splits, have owned 16,000 shares at \$120.50 each (total: \$1,928,000). In other words, Dell is up by a factor of 100 in five years.

But, more important for momentum traders, it's zooming right now, rising by \$16.50 in the first four days of last week. And Wall Street loves the stock: Bloomberg News reports that 21 analysts recommend it as a "buy" or "strong buy," 12 call it a "hold," and only one says Dell is a "sell." By the way, Dell trades at a price-to-earnings (P/E) ratio of 65.

Also recently hitting a new high is Kircorn, Inc. (KIRC), which makes high-tech communications products for computers. Kircorn, which lost money last year, trades at a P/E of 38, based on expected earnings for 1998. The stock is up 162 percent this year and has doubled since mid-June alone. It's a favorite of analyst William Beckles of Tucker Anthony, Inc., the Boston investment firm.

A momentum stock with a more conventional line of business is Tricon Global Restaurants, Inc. (TUM), which owns Kentucky Fried Chicken, Taco Bell and Pizza Hut and was spun off from PepsiCo, Inc., last September. Shares soared from \$31.81 Monday to \$39.63 Thursday on higher earnings estimates.

Other hot stocks in recent days: Ball Corp. (BLL), which makes jars; Amazon.com Inc. (AMZN), the on-line book and music seller, which has tripled since May; Kroger Co. (KR), the supermarket giant that has been cited lately as a possible buyer of another chain; Omnicom Group Inc. (OMC), a string of advertising agencies whose stock has jumped 25 percent since June; and Pimey Bowles Inc. (PBI), also up 25 percent in two months.

Market Timing. Try your hand at predicting the turns in the market as a whole. If you think the market will rise, then buy S&P 500 Depository Receipts, more commonly known as SPDRs or "Spiders." These are shares that trade on the American Stock Exchange (symbol: SPY) and represent one-tenth the value of the Standard & Poor's 500-Stock Index.

But most times these days will probably want to bet against the market. After all, if you're a bull, you can buy the stocks themselves.

One way to take a bearish position is simply to sell SPDRs short, which means borrowing shares and selling them today and then returning them to the lender at a future date when they are (you hope) worth less—or, even better, worthless. Short sales, however, involve borrowing costs and possible margin calls.

Another way to win a bet that the market will fall is to buy bearish mutual funds, including Rydex Ultra Bear (1-800-820-0888), Bear (1-888-778-2327).

The Rydex fund simply shorts the S&P index (or buys "puts," which is doing the same thing). The ProFunds is leveraged so that shareholders earn roughly double the inverse performance of the S&P: If it falls 20 percent, they make 40 percent; if it rises 20 percent, they lose 40 percent. And the Prudent Bear fund takes short positions in stocks. This year, it's down 23 percent.

Dogs of the Market. You can also use your FGA for buying stocks that have been beaten down, in order ride them up. Be aware that this can be a risky strategy for short-term on-line traders since sleeping dogs can lie for a long, long time before rising.

The best (or worst) of the dogs can be found, of course, in Asian markets. Daniel Siever, editor of the PAD System Report, suggests Korea's Pohang Iron & Steel, the world's most efficient producer, which trades as an American Depository Receipt (ADR) on the New York exchange (symbol: PKOX). Pohang stock is down 57 percent in the past 12 months and 40 percent since March alone. Its P/E, based on estimates of 1999 earnings, is just 6.5.

Another way to bet on Asia's dogs is to buy shares of closed-end country funds, which are portfolios that trade just like individual shares on U.S. exchanges. The Korea Fund (KOF), for example, jumped from \$5.50 to \$8 a share between mid-June and mid-July, but has since fallen back below \$6. The Thai Fund (TTF) fell 25 percent in 1996 and 67 percent in 1997. And the Indonesia Fund is off 61 percent in the past 12 months. Are turnarounds ahead?

FGA plays, on-line or not, are not much different from gambling. As long as you remember that, you can have fun and learn something, too. Just don't confuse what you're doing with investing.

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THE MONEY REPORT



Getting a Fix on Asia's Floating Currency Factor

By Philip Segal

THE biggest change in the risk profile of Asia over the past year is in the area of currencies; they used to be fixed, for the most part, and now they float. Even the Hong Kong dollar, which is still fixed, is seen by the market as running a much higher risk than it will come unpegged from the U.S. dollar. How else to explain that Hong Kong bond yields used to be the same as American ones, but that three-year Hong Kong government paper now has to yield 3 percentage points more than U.S. Treasuries to attract investors?

As interest rates in Asia have soared, offering tempting fixed income yields, some analysts have come to the conclusion that stocks are just too risky, given the alternative. Why buy Indonesian stocks, asked Robert Medd at Deutsche Securities Asia Ltd., when you could invest in Indonesian rupiah bonds by entering into an interest rate swap guaranteed by Deutsche Bank and still make 30 percent? Of course, there is risk the rupiah will fall further, but that is the same currency risk you incur on the stock market.

Indonesia is an extreme case, but Mr. Medd's quantitative analysis team reminds investors of a simple premise. You should make more money investing in stocks than in debt. If you cannot earn this minimum return, known as the "cost of equity," there is no point in taking the extra risk.

Here is how the calculation works: Asian stocks should first of all pay a risk premium—the reward an investor should want for taking the greater risk of owning stocks in a comparatively volatile market. Hong Kong's equity premium over owning U.S. stocks, for instance, was 6.2 percent in May, as calculated by Deutsche on the basis of the market's volatilities. This was based on the fact that Hong Kong's market is almost three times as volatile as America's.

In addition to offering a higher total return than U.S. stocks, though, Hong Kong stocks should also have better prospects than safer Hong Kong debt, to compensate for the greater risk of owning—rather than lending—a company. Take a 10-year U.S. Treasury note yielding, at the time of the calculations in May, 5.7 percent—about as free of risk as any investment can get. Add on the extra 1.4 percent you could have earned with a Hong Kong

Mass Transit Railway Corp. bond backed by the government, and then add another 1.8 percent for the exchange-rate risk, calculated by Deutsche Bank from differentials in interest-rate swaps.

What it all adds up to is a cost of equity of 15.1 percent. If your stock investment cannot make that over the course of a year, better not to bother. The cost of equity in Hong Kong is high by U.S. standards, but it is the lowest in Asia other than Singapore. With the cost of capital so high, is it any wonder companies in Asia are hemorrhaging money and economies into deep recessions?

Of course, there are still stocks that should earn more than their cost of equity, but not many. In assembling a list of 10 core holdings in Asia, Deutsche assumes that companies will have to acquire capital at the cost of equity. For a stock to look like a buy using this model, it will have to make more than the cost of its capital—a test that many Asian companies have failed over the past decade.

Given this daunting task and the expectation that capital will remain expensive in Asia for some time to come, Deutsche's top 10 picks in Asia are all cash rich. There is no problem in estimating the companies' weighted average cost of capital, since none of them are expected to need to raise any money. The top two picks—Shearman Expressway Co. and Dairy Farm International Holdings Ltd.—are trading at less than four times free cash flow, and their annual cash flow covers their debt interest payments by more than 50 times. They trade in Hong Kong and Singapore, respectively.

Other picks include Vtech Holdings Ltd., Elec & Eltek International Co. Ltd., Singapore Press Holdings Ltd., and two Hong Kong utilities: CLP Holdings Ltd. (formerly China Light & Power) and Hong Kong & China Gas Co.

A related concern for anyone searching out a company with manageable debt is a risk that has been there all along in Asia, but used to be ignored or at best glossed over by the majority of stock analysts in the region: a lack of information. Disclosure in Asia is a bad joke, even as financial systems and individual companies fight for their lives.

"Nobody believed Siam Commercial Bank's 12 percent nonperforming loans disclosure," said Ray Jovanovitch, a Thailand expert and fund manager at Indocam Asset Management in Hong Kong, and Thai Military Bank is on tenuous ground as well. "This continues to be the major risk to the mar-

ketplace." Little wonder that the price of Thai Farmer Bank PCL has plunged from 68 baht (\$2.12 currently) to 37.50 baht since its rights issue. In that time, the baht itself has fallen too.

Consolidated balance sheets are a must if you want to assess the risk of big debts hitting the company you own, but these are a novelty in much of Asia. The day of the consolidated balance sheet is now dawning in South Korea, which like Japan features companies that have tended to provide cross pledges to guarantee each other's debts. Still, it is early days yet. The fact that the official estimate of the bad debts in Japan's banking system recently rose by 40 percent overnight gives some impression of how rudimentary accounting in Asia has been.

Debt can still be hidden easily in Hoog Kong as well, even though it has had consolidated balance sheets for years. Old hands in the territory know to look with skepticism at promises by Hoog Kong companies that they are not highly leveraged. While the parent company that trades may not be, open the annual report of most of Hoog Kong's largest companies and there will be dozens of off-balance-sheet entities that are consolidated in the listed company's balance sheet, so there is often no sure way to know how much borrowing a company has undertaken.

In the end, if you opt for Asian bonds over stocks, there is good reason they have to pay you so much more in interest than U.S. paper: that currencies in the region will fall. David Roche of Independent Strategy, the research firm, figures that with domestic debt levels far in excess of foreign debt in most Asian countries, governments in the region will have no choice but to inflate away some of their domestic debt by printing money. Inflation is the enemy of the bondholder. As for holders of foreign debt, there is always default risk to worry about.

Still eager to buy something Asian? Take heart from the fact that a Hoog Kong strategist, Marc Faber, once the biggest bear on the region's economy, now figures some Asian stocks could be worth buying. Even though he foresees terrible economic times ahead, he is most scared of the lofty levels of markets in the U.S. and Europe. "Stocks in Asia are down to 1985-86 levels," he said. "The Nikkei is a better buy than the Dow Jones."

IBATSON ASSOCIATES produces an annual International Equity Risk Premium Report, which calculates the risk of owning stocks in 12 countries, compared with risk-free bond returns in each of those countries. It costs \$100, and can be ordered from the company's Internet site at <http://valuation.ibatson.com>

Country Funds in Decline

Coming of the Euro May Make Them Obsolete

By Conrad de Aenlle

INLESS than five months, there will be a single European economy and currency where there are now 11, and in a few years a single regional stock market may handle much of the trading now done on national exchanges. Yet dozens of closed-end stock funds targeting individual countries in the euro zone continue to trade.

Barely. Single-country funds, many of which trade on stock exchanges in London and New York, are typically small and lightly traded. Interest is reserved for small investors—pension funds, for example—who have personal or financial ties to a particular country or for one reason or another find it to have greater growth prospects or more attractive valuations than others.

As Economic and Monetary Union approaches, such reasons are vanishing, in the opinion of Vivian Lewis, editor of the newsletter Global Investing.

"Managers will have a hard time justifying a fund investing in stocks from Austria or Germany or France or Italy when these countries have a common currency," she wrote in a recent issue. "The key investment decision for France Growth Fund will not be whether to buy Renault or Peugeot but whether to buy Fiat or Daimler Chrysler or Volkswagen or Saab. With national frontiers down and stocks all trading in euros, there will be no logic for the survival of country funds" investing in the region.

A report by Credit Suisse First Boston noted that with the advent of EMU still months away, there has already been a strong convergence of stock-market performance in the participating countries, following convergence of interest and foreign-exchange rates.

"Although the initial effects of convergence have been markedly different on the stock markets of peripheral versus core Europe," the report said, "it would appear that European markets are actually becoming more correlated with one another, as would be expected as the economies become more synchronized." Peripheral countries include Italy and Spain, France, Germany and the Benelux countries are considered core Europe.

The harmonization of European markets persuaded Federal and Colonial Management Ltd. to shut down its only single-country fund in the euro zone, Foreign & Colonial German Investment Trust, which was listed on the London Stock Exchange. Shareholders were offered cash or shares in a London-listed regional fund, Foreign &

Colonial Eurotrust, or a combination of both. Most chose shares for all or part of their stakes.

"We sort of felt this action was required because the arguments for investing in a single country in Euroland have diminished," Georgette Harrison, a Foreign & Colonial spokeswoman, said of the move, using one of the names drummed up to describe the 11-country bloc. Shareholders were told that "the prospects for a Europe-wide fund were much greater than for a German one. The investment style has changed; instead of looking at allocation across countries, we're now looking at allocation across sectors."

Ms. Lewis, the newsletter editor, predicted that other fund managers would seek approval from shareholders to expand the horizons of country funds. When that happened, she said, shareholders, already grumpy because many country funds trade at prices far below the value of the holdings in their portfolios, will intensify pressure on managers to take steps to narrow those discounts.

Don Cassidy, a specialist in closed-end funds at Lipper Analytical Services, a fund-industry research firm, is skeptical. He pointed out that efforts by shareholder activists against closed-end funds have almost universally failed and that unless managers have complementary funds in their stables, there is little incentive to alter a country fund's bylaws.

"The various funds, with just a minority of exceptions, are run by different management firms, so there is an institutional issue here about giving up assets—and future fee streams—unless paid for exiting in a merger, since only one firm ends up surviving to manage a merged fund," he explained. "So far I have heard no rumblings of intentions to open-end, liquidate or merge the single-country funds" listed in the United States.

Thomas Herzfeld, an investment adviser and authority on closed-end funds, agreed that managers would be reluctant to yield control of their funds but said that they might expand their portfolios geographically.

"I don't buy into any theory that says these funds are going to go out of business, because the managers won't want to let them go," Mr. Herzfeld said. "Could they modify their investment objectives to include sector allocation or investment throughout Europe, not just a single country? Quite possibly. The closed-end fund structure offers flexibility to modify investment objectives, but I haven't seen any proposals based on monetary union."

THE INTERNET CLOSED-END INVESTOR SITE lists and evaluates all major international closed-end funds. It can be consulted at www.iesit.com

Coming to Terms With Idea of Risk

Continued from Page 15

penalized for or how much premium should be required." Government bonds have always been thought safer than stocks because they promise a return of capital at a known date and trade with less volatility.

Proponents of reduced risk premiums ignore one of the biggest risks in investing, Mr. Dimson of the London Business School said: counting on consistent returns.

"There is a danger that people will spend too much time allowing themselves to be concerned by past returns instead of volatility," he cautioned. "People want to put money in the Dow Jones, not Japan, or into Berkshire Hathaway or funds at the top of the rankings. They spend time and money exiting funds and doing badly. That's probably a greater sin than focusing excessively on risk. If you assume that risk remains the same in the future and past, that's fairly innocuous, but if you assume that performance remains the same, it's dangerous."

WILLIAM SHARPE, professor of the Sharpe Risk, maintains a website with information about risk and other investment matters at www.sharpe.rutgers.edu

No-Risk Funds: A Free Lunch?

Continued from Page 15

percent quarterly floor, Mr. Millward pointed out, so the sleep may be troubled and fiduciary.

"Floor funds are quite useful, but you must think of the worst-case scenario: The market could crumble down and the money disappears overnight," he said. "They would protect somebody who thinks there's a big crash coming, but then why are they in the market? With the sales charge, they could easily be down 20 percent in the first year. Think about the psychology of this investor. It could easily kill him."

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BRIEFCASE

Merrill Lynch Sets Plan for Investors

Strategists at Merrill Lynch & Co. this week recommended a four-point plan for global investors in light of Russia's problems in repaying its debt and Hong Kong's purchase of stocks to keep its asset prices up:

• A cautious approach to global equities, with an emphasis on bonds and cash. Merrill warned that earnings estimates, especially in America, "may be understating the severity of the deflationary pressures in the world economy."

• A preference for European stocks over those in the United States, where the economy "seems to be near the end of a long investment boom."

• For the long-term, bargain-hunting in Asia. Even though the region's economies have "serious structural problems that will take time to sort out," current low prices for securities mean "Asia seems to be where the value lies."

• Avoid emerging markets. "Global economic growth appears to be slowing," the strategists wrote, "led by the problems in Asia. This points

to weakness in the demand for the exports of many emerging-market economies." As well, "worries about political and social stability may increase in a number of emerging markets in the months ahead." (IHT)

From J.P. Morgan, An ADR Website

J.P. Morgan & Co., a major issuer of American Depositary Receipts, has introduced a web site devoted to ADRs, joining the other two leading players, Bank of New York and Citibank, on the Internet.

The move into cyberspace comes amid growing popularity of ADRs, dollar-denominated shares of non-U.S. companies that trade in the United States. Trading volume in ADRs soared to 15 billion shares last year, a 23 percent leap over 1996, according to Bank of New York. The receipts have won a following because they avoid many of the hassles of buying on a company's home exchange, like high brokerage costs and foreign-exchange conversions.

J.P. Morgan's site features more than 400 ADRs from Morgan's stable and from the other banks. Joan Goldstein, a

marketing executive, said the ADRs selected were "major, widely held companies," including British Petroleum Co. and Telefonos de Mexico SA. The website provides data ranging from historical prices and price quotes to current news stories and analysts' earnings estimates on each company.

Bank of New York's offering has covered the market in terms of numbers. It boasts more than 1,000 ADRs. These include its own offerings, such as ABN Amro Holding N.V., the Dutch bank, and a group of recently privatized Chinese companies, plus ADRs sponsored by other banks. Besides one-page fact sheets, market quotes, financial data and links to company home pages, BONY offers foreign-exchange information and a monthly newsletter on global investing trends.

Citibank lists only its own depositary receipts, roughly 350, including Deutsche Telekom AG and Grupo Televisa SA, the Mexican broadcaster. The site offers quotes and in-depth company information on all its ADRs, and also allows an investor to

research issues that could have an impact on the performance of a depositary receipt, such as the economy of its home country. Citibank also offers educational information explaining the basics of depositary receipts and how they work.

J.P. Morgan and Bank of New York have information on their web sites about programs that allow investors to buy their ADRs without sales commissions. Citibank will have its direct purchase program on its web site by the end of this year. (IHT)

The Websites:

• BANK OF NEW YORK: www.bankofnewyork.com

• CITIBANK: www.citibank.com/broker/adr/

• J.P. MORGAN: www.adr.com

Banks Join to Offer Issues in Singapore

Mellon Bank Corp. has formed an alliance with United Overseas Bank to offer mutual funds and other asset-management products to investors in Singapore.

The fund-management arms of each bank are considering taking stakes in each other or forming a joint ven-

ture. They also plan to offer mutual funds similar to those of Mellon's Dreyfus Corp. subsidiary in Southeast Asia along with services for institutional investors.

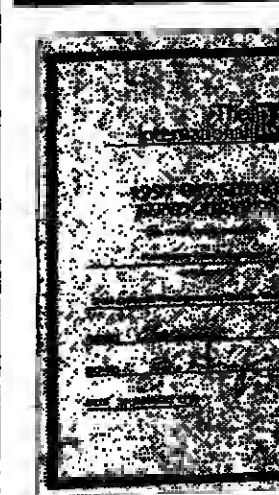
The outlook for pension-fund privatization around the world has attracted a host of American fund managers to overseas markets.

Goldman, Sachs & Co., for example, is working with Asahi Bank Ltd. to develop investment-trust products, which are similar to mutual funds. Fidelity Investments is already offering its funds at Asahi and three other Japanese banks through booths staffed by its own employees.

In Britain, Morgan Stanley Dean Witter & Co. has begun marketing a limited range of no-load equity funds to British investors, while Mellon itself recently purchased a 75 percent stake in Newton Investment Management and has entered into alliances in Brazil, Chile, Hoog Kong and Japan.

Mellon, which is based in Pittsburgh, also owns the Founders mutual-fund family. (Bloomberg)

North Star The Top Fund Manager



"North Star was ranked No. 1 Offshore Fund Manager of 1997 for 3 years performance by the two FT publications The International and Resident Abroad out of 104 International Fund Managers. North Star was also voted No. 1 for 1995 and No. 2 for 1996 by the same publications."

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- the top 5 performing funds of funds ranked by year to date returns as of May 31, 1998 as published in MAF/Hedge, an industry journal tracking hedge fund performance, as well as the ten top-performing funds of funds in the world for April 1998
- the top-performing U.S. equity fund in the world for 1997; the top performing equity fund and the top performing UK equity fund in the world for 12 months ending April 1998, as ranked by Lipper Analytical Services
- Magnum funds ranked 1st, 2nd and 8th in FT The International magazine's rankings of the best-performing actively hedged funds in the world for the last 3 years, through November 1, 1997
- the top-performing multifund with a U.S. geographic emphasis for the 12 months through November 1997, as ranked by Lipper Analytical Services

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DAVE BARRY

'Woon.' Alive in Paris

MIAMI — Today I'll be concluding my two-part series on Paris, France. In writing this series, my goal, as a journalist, is to provide you with enough information about this beautiful and culturally important city so that I can claim my summer vacation trip there as a tax deduction.

My topic in Part Two is the historic tourist attractions of Paris. The Parisians have been building historic attractions for more than 1,500 years as part of a coordinated effort to kill whatever tourists manage to escape the drivers. The key is stairs.

Most tourist attractions, such as L'Arc de Triomphe (literally, "The Lark of Triumph") and the Hunchback of Notre Dame Cathedral, have some kind of lookout point at the top that you, the tourist, are encouraged to climb to via a dark and scary medieval stone staircase containing at least 5,789 steps and the skeletons of previous tourists (you can tell which skeletons are American because they're wearing sneakers). Meanwhile, down at street level, the Parisians are smoking cigarettes and remarking, in French, "Some of them are still alive! We must build more medieval steps!"

Of course, the tallest monument in Paris is the Eiffel Tower, named for the visionary engineer who designed it, Fred Tower. The good news is, there are elevators to the top. The bad news is, pretty much the entire tourist population of Europe is up there taking flash pictures of itself. There are so many people crowded into the smallish observation area that you get the feeling, crazy as it seems, that the whole darned Eiffel Tower is going to topple over. Ha ha! In fact, this has happened only twice since 1991.

Paris also has many excellent art museums, the most famous being the Louvre (pronounced "Woon"). If you plan to visit it, you should allow yourself plenty of time to see everything — say, four years — because the Louvre is the size of Connecticut, only with more stairs. The museum contains 30,000 pieces of painting and sculpture, and as you walk past these incredible works of art, depicting humanity through the centuries, you cannot help but be struck, as millions of people have been struck before you, by the fact that for a whole lot of those centuries, humanity was stark naked.

To judge from the Louvre, until about 1900, everybody on Earth — men, women, children, gods, goddesses, horses — basically just stood around all the time without a stitch of clothing on. There's one gigantic painting of a bunch of warriors getting ready to go into battle, and all they're wearing is swords. You expect to see a comics-style speech balloon coming out of the lead warrior's mouth, saying, "Fight hard, men! If we win the war, we can afford pants!"

I think the reason the Mona Lisa is so famous is that she's just about the only artistic subject in the Louvre who's wearing clothes. On any given day, every tourist in Europe who is not on top of the Eiffel Tower is gathered in front of the Mona Lisa, who gazes out at the crowd with the enigmatic expression of a person who is pondering the timeless question: "How come they keep taking flash photographs, even though the signs specifically prohibit this?"

I enjoyed the art museums, but for me the most moving cultural experience I had in Paris was — and you may call me a big fat stupid low-rent American pig if you wish — visiting a gourmet food store called Fauchon (pronounced "Woon"), which contains two-thirds of the world's caloric supply. In the great art museums, I eventually reached a saturation point and found myself walking right past brilliant masterpiece paintings by Van Gogh, Renoir, Matisse, LeRoy Neiman, etc., without even glancing at them; whereas after a lengthy period of browsing in Fauchon, I was still enthusiastically remarking, with genuine artistic appreciation: "Whoa! Check out THESE eclairs!"

In conclusion, I would say that Paris is the most beautiful city in the world, and its inhabitants have an amazing sense of "savoir-faire," which means, literally, "knowing how to extinguish a fire." I say this because one Sunday afternoon I was in a crowded café when smoke started billowing from a cabinet into which waiters had been stuffing trash. It was a semi-scary situation; I stood up and gestured toward the smoke in an alarmed American manner, but the French diners paid no attention. In a moment, a waiter appeared carrying some food; he noticed the smoke, served the food, went away, then returned to douse the fire with, I swear, a bottle of mineral water. And you just know it was the correct kind of mineral water for that kind of fire. So the meal ended up being very pleasant. It was also — I state this for the benefit of the Internal Revenue Service — quite expensive.

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'Some of them are still alive! We must build more medieval steps!'

The Secret Life of Charles Lutwidge DodgsonBy Alan Riding
New York Times Service

LONDON — Even by Victorian standards, Charles Lutwidge Dodgson was a considerable eccentric. When the shy Oxford University lecturer veered away from his academic interest in mathematics to publish "Alice's Adventures in Wonderland" and "Through the Looking Glass," he hid behind the nom de plume of Lewis Carroll and, even late in life, refused to acknowledge that he was the author of the best-selling children's classics.

There was more. Dodgson exhibited a lifelong affection for little girls, seeking them out not only to enjoy their company and tell them stories, but also to photograph them, at times naked. His university colleagues thought this bizarre, but he evidently did not. In a letter to the mother of two of his prepubescent models, he wrote: "Their innocent unconsciousness is very beautiful, and gives one a feeling of reverence, as at the presence of something sacred."

This year, with the centennial of Dodgson's death being celebrated here with exhibitions, conferences, walking tours, ballets, musicals, television documentaries and new publications, the personality and obsessions of the man behind the pseudonym are again being put to scrutiny.

But now, viewed through contemporary eyes, his image is no longer unblemished. At the very least, his fascination for little girls is today considered dubious.

"I did a show of his photographs in 1974, and at the time no one asked me about pedophilia," said Colin Ford, director of the National Museum of Wales and curator of a new exhibition of Dodgson's photographs at the National Portrait Gallery in London. "This year, the question has overshadowed everything. So a quarter of a century has totally changed our views. We see pedophilia everywhere nowadays. The world has changed quite dramatically."

Ford, though, is among Lewis Carroll experts who believe that, while clearly obsessive, Dodgson's attraction to young girls was probably motivated by a highly romanticized view of innocence. "Victorian England had a clear notion that a girl before puberty was as pure and divine as was possible to imagine," he said. "Then, when she reached puberty and was ready for marriage, hands off!"

Certainly, it is impossible to imagine the unmarried Dodgson — or Carroll — writing books for children unless he had a special affection for them. He was the eldest of 11 children of a Church of England priest and, as such, grew up in a household of little girls and boys. Then, in the mid-1850s, he first met the three children of Harry Liddell, the dean of Christ Church College, and for the first time could claim what he called "child friends" of his own.

Of these, Alice was the youngest and prettiest of the sisters. And it was thanks to Alice's insistence on being entertained that "Alice's Adventures in Wonderland" was born during a boat trip to Godstow Lock outside Oxford on July 4, 1862. Alice was 10 then, 20 years Dodgson's junior. By the time the story improvised that summer afternoon appeared in book form in 1865, however, Alice's mother had banished Dodgson from the Liddell household, perhaps because she feared



The Oxford lecturer better known as Lewis Carroll.

that one day Dodgson could become her son-in-law.

Dodgson was distraught. In his 1996 biography of Carroll, Michael Bakewell concludes quite simply that "he was in love with Alice." Certainly he continued to speak of her as his "ideal child friend," and in 1872 she was again the unseen muse for "Through the Looking Glass." The book's closing poem includes the lines: "Still she haunts me phantomwise/ Alice moving under skies/ Never seen by waking eyes."

Dodgson nonetheless continued to befriend and photograph young girls. In the introduction to a Penguin Books centennial edition of Carroll's two best-known stories, Hugh Haughton, a lecturer at the University of York, notes that Dodgson would list his "child conquests" in his diaries.

"Dodgson was the Casanova of the Victorian nursery," he offers. In the years leading up to his decision to abandon photography in 1880, Dodgson also began taking photographs of his "child friends" in the nude. "With children who know me well, and who regard dress as a matter of indifference, I am very glad (when mothers permit) to take them in any amount of undress which is presentable, or even in none (which is more presentable than any form of undress)," he wrote in his diaries.

Although only four of these nude photographs survive (he destroyed most of them before his death in Guildford on Jan. 14, 1898), these at least are not remotely salacious and are more evocative of the cherubic children who routinely appeared in the Pre-Raphaelite paintings that Dodgson admired. Indeed, the photograph that experts consider most emotionally — and perhaps sexually — charged is "Alice Liddell as a Beggar Girl," which shows Alice in ragged clothes, her bare shoulders visible, her head cocked to one side.

"Yet Carroll — and Tennyson (who thought this the most beautiful photograph he had ever seen) — surely saw only innocence in it," Ford writes in an essay accompanying the show at the National Portrait Gallery. "For them, Alice's costume was simply a picturesque version of a beggar's clothes, her fixed gaze the result of having to keep absolutely still."

Ford said that his purpose in organizing the show, "Lewis Carroll: Through the Viewfinder," which runs through Oct. 11, was simply "to say he was a great photographer, able to take illuminating pictures of children more than anyone in the 19th century."

As it happens, individual portraits of girls account for only a third of the 70 or so photographs in the show, although children do appear in other group photographs.

Dodgson's skill as a photographer is most evident in the portraits taken in his rooftop studio in Oxford where, unlike many of his contemporaries, he invariably captured his subjects in informal and natural positions, as in his famous photograph of a later favorite, Alexandra Kitchen, asleep on a couch. "His ability in establishing relaxed relationships with his sitters means that, though they had to sit still for just as long as they did with other photographers of the time, they mostly look calm, confident and not at all artificial," Ford writes.

If the children in particular seem at ease, it was also because the stammering Dodgson, who was socially dysfunctional with most adults, felt at home in their company. In several later memoirs, some of his young sitters recalled the fun they had visiting his studio and dressing up to be photographed. And it was with them that Dodgson evidently felt free to develop his art; significantly, he always referred to himself as an artist.

For Ford, any sexuality seen in his photographs remains a product of our age. He notes that popular 19th-century erotic photographs were seen as pornographic in Victorian times.

"Today, they seem harmless enough, exploitative of their models perhaps, but almost charming and surely unarousing," he writes. "These once-shocking images have become safe, while Carroll's always innocent nude children have become dangerous and threatening."

PEOPLE

THE actress and ambassador Shirley Temple Black, the little girl who saved 20th Century-Fox from failure during the Depression, and Willie Nelson, who helped reinvent country music, are among six people who will receive the Kennedy Center's annual honors in the performing arts. The others are the actor-comedian Bill Cosby; the Broadway songwriting team of John Kander and Fred Ebb, who are responsible for the musicals "Cabaret" and "Chicago," and Andre Previn, the composer, conductor and pianist, whose first opera, "A Streetcar Named Desire," will have its premiere at the San Francisco Opera on Sept. 19. They will be honored at a gala Dec. 6 at the Kennedy Center.

Jackie Gleason's family has sued a cigar store chain, accusing it of using an image of "The Honeymooners" star without permission. But an owner of the Royal Cigar Society International said it had removed the image of Gleason with a cigar in his hand as soon as the family asked.

The actor Alain Delon has failed to persuade a court to order a French magazine off the newsstands after it published sordid allegations from a planned unauthorized biography. The newsweekly Mari-

anne apparently got around an earlier court decision, which blocked anyone from even publishing the book's synopsis, by running court papers that cite its contents. Among the details quoted from the court papers, were Delon's alleged youthful dalliances with other actors or actresses and reported ties to shady politicians, mafia figures and mercenaries.

An American explorer's effort to sail a replica of an ancient Peruvian vessel around the world has ended after eight months. Gene Savoy and the six-man crew of the Feathered Serpent III were rescued Thursday after their 73-foot catamaran broke up in bad weather 500 miles southwest of Christmas Island in the Pacific. The voyage was intended to prove that pre-Columbian Peru had contact with civilizations as far away as Japan and the Middle East.

The Canadian folk singer Gordon Lightfoot will aid a fund-raising effort to memorialize victims of the more than 6,000 ships that have gone down in the Great Lakes. Lightfoot, whose ballad "The Wreck of the Edmund Fitzgerald" popularized the legend of the ill-fated freighter that sank in 1975, will perform Sept. 19 in Sault Ste. Marie, Michigan, to benefit the Great Lakes Shipwreck Historical Society.



SPIN DOCTOR — Bob Geldof, the Irish pop star, announcing his new job as a disk jockey for the revived London radio station XFM.



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